

**BOSTON UNIVERSITY**  
**GRADUATE SCHOOL OF ARTS AND SCIENCES**

Dissertation

**MALAYSIAN FOREIGN POLICY IN THE MAHATHIR ERA, 1981-2003**

by

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Submitted in partial fulfillment of the

requirements for the degree of

Doctor of Philosophy

2005

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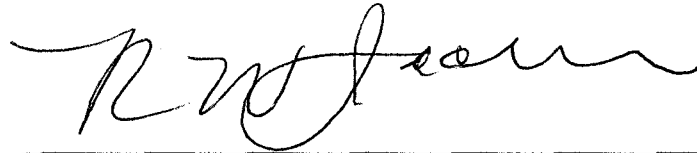
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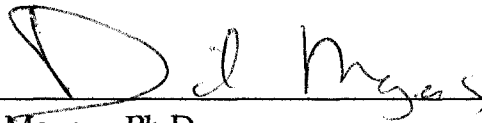
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## ACKNOWLEDGEMENTS

This dissertation is the outcome of much that has transpired in the preceding two decades of my professional, academic and personal life. My career has accorded me more than a decade of involvement in Malaysia's domestic and foreign policy processes. My academic pursuits have revolved around studying Political Science, Public Administration, International Relations and Foreign Policy. These pursuits further involved teaching Foreign Policy and Diplomacy for six years. As a citizen, I experienced the full impact of the eventful Mahathir era by living through it during the prime of my adult life. Mahathir was a parliamentarian when I began my primary education, the education minister when I entered secondary school, and prime minister when I enrolled for my undergraduate studies. He retired only months after this thesis began to take shape – having being at the helm for 22 years and having left untouched virtually no aspect of domestic and foreign policy. More so, I served the Mahathir establishment by being a full time member of the nation's Administrative and Diplomatic Service and by concurrent adjunct teaching in two of the nation's public universities. I served six years at the Institute of Diplomacy and Foreign Relations, now under the purview of the Ministry of Foreign Affairs but a brainchild of the Prime Minister himself. This thesis hence tries to put it all

together – Mahathir’s regime, domestic issues, external factors and foreign policy – in the hope that they tie in for the reader, the way as they have tied into my own professional life.

I thank my supervisor Professor Robert Jackson, PhD, for providing excellent intellectual guidance and inspiration in the process. To my other two readers, Department Chairman Professor David Mayers, PhD, and Director of Graduate Studies Professor Sofia Perez, PhD, who also served as my academic adviser in the coursework years of my PhD education, I express appreciation for their unreserved professional input. To all the other professors who taught me in class and gave me the opportunity to work with them, I owe them gratitude for gifting me with invaluable intellectual and academic tools.

Data collection is never an easy process and those who helped provide me with information I sought have my thanks. Appreciation is due to the staff of Boston University’s Mugar Library, Fletcher School of Law and Diplomacy’s Ginn Library, Boston College’s O’Neill Library, the Boston Public Library and the Institute of Diplomacy and Foreign Relations Malaysia Library – the five libraries that provided a vast array of the secondary resources used in this work.

Many colleagues and friends from the 25 years of my studying and working life contributed immensely in ways ranging from providing guidance to

making available hard to obtain data. They are all too numerous to list; yet one, Lim Chai Mee must be mentioned. To her I owe gratitude for her meticulous proof reading of the early part of this work and her untiring Internet searches for information relating to MFP. She helped extensively with matters back home and provided never ending inspiration.

I wish to thank the Public Services Department, Government of Malaysia for giving me a generous scholarship for my PhD studies. Diligence and empathy on the part of the staff at the Training and Scholarship Division ensured finances were never part of the myriad of pressures a PhD education entails.

This thesis would not be possible without the unconditional love and boundless patience of my wife Sitvinder Kaur and our two wonderful children, Brejvinder Singh Dhillon, 7, and Amrit Kaur Dhillon, 5, all of who displayed remarkable tolerance of the sacrifices required of a family of a PhD student living in a faraway foreign land. This alone earns the three of them the complete dedication of this thesis.

# **MALAYSIAN FOREIGN POLICY IN THE MAHATHIR ERA, 1981-2003**

(Order No.        )

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## **ABSTRACT**

This dissertation starts from the observation that Malaysian Foreign Policy in the Mahathir era underwent significant shifts in terms of its direction, nature, substance, style and rhetoric. The policy shifted from traditional to modern, assertive and pragmatic and its focus was redirected from defense and security to commerce and development.

The thesis argues that MFP in the Mahathir era is best understood by focusing upon the interaction between three significant elements: Mahathir's idiosyncrasy, pertinent domestic issues, and relevant external factors. The thesis constructs Mahathir's idiosyncrasy through an intellectual biography of his personality, leadership style, political ideology and brand of nationalism. The domestic element focuses on the need for ethnic integration, regime maintenance and national development. The external variable encompasses global and



regional events during the Mahathir era as well as the behavior of Singapore, China and Japan towards Malaysia.

The thesis examines MFP across seven major and sixteen component policy initiatives, namely: (1) Buy British Last (BBL 1 & 2), (2) Anti-Commonwealth, (3) Look East, (4) Third World Spokesmanship (The Antarctica Policy, Apartheid, the Global Environment, South-South Cooperation and a New World Order), (5) Regional Engagement, (6) Islamic Posturing (Palestine, the Soviet invasion of Afghanistan, the Iran-Iraq war, Gulf Wars of 1991 and 2003, Bosnia and the US War on Terror) and (7) Commercial and Developmental Diplomacy (FDI attraction and Reverse Investments).

All the above initiatives validate the view that the Mahathir era MFP underwent significant shifts. Except for Regional Engagement, all seven major initiatives studied were unique to the Mahathir era. Of the sixteen component initiatives, all except two – Apartheid and the Liberation of Palestine – were exclusive to the Mahathir era.

The thesis establishes that Mahathir's idiosyncrasy had a deep impact on all aspects of MFP, but that profound domestic factors (particularly the country's communal society, the patronage based regime and its desire for development) as well as salient external forces namely globalization, unipolarity, Japanese

regional designs, Singapore's defense posture and China's complex behavior – offering itself both as a threat and opportunity – interacted to give MFP the unique shape, substance and rhetoric that it came to acquire.

## CONTENTS

ACKNOWLEDGEMENTS	iv
ABSTRACT	vii
LIST OF ABBREVIATIONS	xiii
CHAPTER 1 METHODOLOGY AND RESEARCH PROBLEM	
FRAMEWORK OF ANALYSIS	2
INDEPENDENT VARIABLES	
The Idiosyncratic Factor	6
Domestic Factors	6
External Variables	7
DEPENDENT VARIABLES	9
THE CASE OF MALAYSIAN FOREIGN POLICY	10
STRUCTURE OF THE THESIS	20
DATA COLLECTION	21
CHAPTER 2. THE SOURCES OF MALAYSIAN FOREIGN POLICY 1981-2003: THE IDIOSYNCRATIC FACTORS	
METHODOLOGY	23
INDIVIDUAL TRAITS	
Plebian Background	31
Mixed Ethnic Roots	35
Non-Political Upbringing and Local Education	38
POLITICAL IDEOLOGY	40

LEADERSHIP STYLE AND TRAITS	55
CONCLUSIONS AND IMPLICATIONS FOR FOREIGN POLICY	79
CHAPTER 3 THE SOURCES OF MALAYSIAN FOREIGN POLICY 1981-2003: DOMESTIC FACTORS	
NATIONAL INTEGRATION	96
REGIME MAINTANENCE	113
NATIONAL DEVELOPMENT	140
MFP as a Catalyst for National Development	142
MFP and the Islamic Challenge to Development	148
CONCLUSION	164
CHAPTER 4 THE SOURCES OF MALAYSIAN FOREIGN POLICY 1981-2003: THE EXTERNAL FACTORS	
INTRODUCTION	168
THE END OF THE COLD WAR & DEMISE OF COMMUNISM	170
GLOBALIZATION	181
SINGAPORE, JAPAN, AND CHINA	192
CONCLUSIONS	228
CHAPTER 5 THE OUTPUTS OF MALAYSIAN FOREIGN POLICY, 1981-2003	
BUY BRITISH LAST AND THE COMMONWEALTH POLICY	234
Explaining Buy British Last and Commonwealth	239

LOOKING EAST	259
Explaining Look East	266
THIRD WORLD SPOKESMANSHIP	289
Antarctica Policy	290
Apartheid	292
Global Environment	294
New World Order	295
Explaining Third World Spokesmanship	299
CHAPTER 6 THE OUTPUTS OF MALAYSIAN FOREIGN POLICY, 1981-2003	
REGIONAL ENGAGEMENT	319
Explaining Regional Engagement	323
ISLAMIC POSTURING	
Palestine	330
Afghanistan	342
Bosnia	343
Iraq-Iran War and the two Gulf Wars	345
USA's War on Terrorism	347
Explaining Islamic Posturing	350
COMMERCIAL AND DEVELOPMENTAL DIPLOMACY	
Reverse Investments, Trade and Markets	370
Foreign Direct Investments	377
Explaining Commercial and Developmental Diplomacy	382
CHAPTER 7 CONCLUSIONS	398
BIBLIOGRAPHY	418
CURRICULUM VITAE	444

## LIST OF ABBREVIATIONS

ABIM	Malaysian Islamic Youth Movement
AFTA	Asean Free Trade Area
AMDA	Anglo Malayan Defense Agreement
APEC	Asia Pacific Economic Community
ARF	Asean Regional Forum
ASA	Association of Southeast Asia
ASEAN	Association of Southeast Nations
ASEM	Asian-European Meeting
ATCP	Antarctica Treaty Consultative Parties
BBL	Buy British Last
BPA	Bilateral Payment Arrangement
CMB	Confidence Building Measures
CEPT	Common Effective Preferential Tariff
CHOGM	Commonwealth Heads of Government Meeting
CIS	Commonwealth of Independent States
CPM	Communist Party of Malaya
DAP	Democratic Action Party
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Grouping
EC	European Commission
EEZ	Exclusive Economic Zone
EPU	Economic Planning Unit
EU	European Union

FDI	Foreign Direct Investments
HICOM	Heavy Industries Corporation of Malaysia
ICA	Industrial Coordination Act
IDF	Israeli Defense Forces
IDFR	Institute of Diplomacy and Foreign Relations
IPA	Investments Promotions Act, 1986
ISA	Internal Security Act
JACTIM	Japan Chamber of Commerce and Industry Malaysia
JAMECA	Japan-Malaysia Economic Association
Jl	Jemaah Islamiyah wing of Al Qaeda
KL	Kuala Lumpur
KLIA	Kuala Lumpur International Airport
KLSE	Kuala Lumpur Stock Exchange
LME	London Metal Exchange
LSE	London Stock Exchange
MAJECA	Malaysia-Japan Economic Association
MATRADE	Malaysian Trade Development Authority
MCA	Malaysian Chinese Association
MCCBCHS	Malaysian Consultative Council on Buddhism, Christianity, Hinduism and Sikhism.
MFA	Ministry of Foreign Affairs
MFP	Malaysian Foreign Policy
MIC	Malaysian Indian Congress
MIDA	Malaysian Industrial Development Authority
MINDEF	Ministry of Defense.

MISC	Malaysian International Shipping Corporation
MOHA	Ministry of Home Affairs
MPAJA	Malayan Peoples Anti Japanese Army
MSC	Multimedia Super Corridor
NAFTA	North American Free Trade Area
NAM	Non Aligned Movement
NDP	National Development Policy
NEP	New Economic Policy
NIC	Newly Industrializing Country
NIEO	New International Economic Order,
NOC	National Operations Council
NPL	Non Performing Loan
NSTP	New Straits Time Press
ODA	British Overseas Development Administration office
OIC	Organization of Islamic Countries
PAC	Public Accounts Committee
PAS	Islamic Party of Malaysia
PLO	Palestinian Liberation Organization.
PNB	National Equity Corporation
PPP	People's Progressive Party
SAF	Singapore Armed Forces
SEATO	Southeast Asia Treaty Organization
SEDC	State Economic Development Corporation
TWF	Third World Foundation
UEM	United Engineers Malaysia



UN	United Nations.
UNCTAD	United Nations Commission on Trade and Development
UNGA	United Nations General Assembly
UNSC	United Nations Security Council
UMNO	United Malay National Organization
USA	United States of America
WTO	World Trade Organization
ZOPFAN	Zone of Peace, Freedom and Neutrality.

## **CHAPTER 1: METHODOLOGY AND RESEARCH PROBLEM**

### **1.0 INTRODUCTION**

This study attempts to analyze and explain Malaysia's Foreign Policy (MFP) in the two-decade long Mahathir era. The primary area of examination is the proposition that the period 1981 - 2003 saw shifts in the direction of MFP from traditional to modern. This study therefore seeks to explain why Malaysia made the foreign policy choices it did by focusing upon the significant elements and independent sources of the policy.

This study is guided by the proposition that the shift in MFP during the Mahathir era cannot be attributed solely to the idiosyncrasies of Malaysian political elites, but rather that it can be explained in terms of the interaction of three main clusters of factors namely idiosyncratic, domestic and external. The study seeks to show that a shift towards a more modern foreign policy during the Mahathir period was the result of the interplay of Mahathir's personality, leadership style, political philosophy and his brand of nationalism; the domestic political goals of regime maintenance, national development and integration of its multi-ethnic society; and relevant external events in particular the end of the Cold War, the spread of globalization, growth of regionalism and the behavior of select other states towards Malaysia.

## 1.2 FRAMEWORK OF ANALYSIS

The use of independent sources to explain foreign policy behavior lies at the heart of the comparative study of foreign policy. Analysts belonging to this tradition have attempted to identify, classify and prioritize the sources of foreign policy for use as independent variables in the study of the external behavior of a state.

James N. Rosenau for instance has stipulated that the independent sources of foreign policy are five: Individual, Role, Governmental, Societal and Systemic.<sup>1</sup> Individual sources are those that relate to the idiosyncrasies of the individuals who determine a nation's foreign policy. Role variables relate to the external behavior of officials involved in the foreign policy processes. Governmental variables are aspects of government's structure that limit and enhance foreign policy choices. Societal variables refer to the non-Governmental aspects of a society, which condition, influence or contribute to the contents of a nation's foreign policy. And systemic variables refer to the state's external environment.

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<sup>1</sup> James N. Rosenau, *The Scientific Study of Foreign Policy*, New York: The Free Press, 1971, pp. 94 – 116, and James Rosenau, "Pre Theories and Theories of Foreign Policy," in Barring Farrell, ed., *Approaches to Comparative and International Politics*, Illinois: NW Press, 1966, 27-92.

To Rosenau's five variables, comparativist Lloyd Jensen adds ideology and the decision making process.<sup>2</sup> McGowan and Shapiro in turn add establishment, cultural, and linkage variables as well as subdivide other variables to expand the list to twelve.<sup>3</sup>

Given that the processes, institutions and establishments that are the focus of comparativists are often absent or not clearly demarcated in Third World states, foreign policy analysis of small developing states has tended to focus on the idiosyncratic (leadership) variable.<sup>4</sup> Bhagat Korany<sup>5</sup> has argued that doing so narrows the analysis, overlooks the influence of peculiar societal and external factors and causes analysts to fall into the trap of "the great man theory of history."

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<sup>2</sup> Lloyd Jensen, *Explaining Foreign Policy*, New Jersey: Prentice Hall, 1982, pp. 1 - 12.

<sup>3</sup> Patrick J. McGowan and Howard B. Shapiro, *The Comparative Study of Foreign Policy: A Survey of Scientific Findings*, London: Beverly Hills, Sage Publications, 1973, pp. 40-45. Establishment variables relate to the organizational structures and features of the nation's policy-making institutions. The cultural variable emphasizes the cultural processes within the country. Linkage variables refer to the nation's historical foreign policy behavior inculcating "all past official actions of decision makers and their agents as manifested in treaties, diplomatic representation, and international organizational memberships."

<sup>4</sup> Titles of works on the foreign policy of developing countries indicate this trend. Some examples include: Iqbal Singh, *Between Two Fires: Towards an Understanding of Jawaharlal Nehru's Foreign Policy*: Vol. II. 1998, Chen Jian, *Mao's China and the Cold War*. Chapel Hill, NC: University of North Carolina Press, 2001, Suryadinata, Leo, *Indonesia's Foreign Policy Under Suharto*, Singapore, 1996, Surjit Mansingh, *India's search for power: Indira Gandhi's foreign policy, 1966-1982*, New Delhi: 2001

<sup>5</sup> Bhagat Korany, *How Foreign Policy Decisions are Made in the Third World: A Comparative Analysis*, Boulder and London: Westview, 1986 Chapters 1 and 2, and "The Take-off of the Third World Societies: The Case of Foreign Policy," in *World Politics*, Vol 35, April 1983, pp. 448-465.

Robert Scalapino has argued for the primacy of domestic politics, particularly economics, in the analysis of foreign policy of developing states.<sup>6</sup> In his work - a volume of essays, which examines the external policies of Asian countries – Scalapino moves away from the idiosyncratic model to examine instead the link between domestic and external politics.

The relevance of domestic politics in explaining foreign policy behavior is also given prominence in the more recent work of comparativists David Wurfel and Bruce Burton who argue that in small and developing states, the impact of foreign policy may be domestic – regime survival, economic development, nation building etc, and that the desire for such consequences can be the primary motivation of policy makers in the first place.<sup>7</sup>

This study thus takes the position that an examination of the interaction of several relevant factors is crucial in providing a comprehensive analysis of MFP during the Mahathir era. The idiosyncrasy, leadership style, political philosophy and brand of nationalism of the personality who commandeered the regime for

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<sup>6</sup> Robert Scalapino, et. al., (eds.) *Asia and the Major Powers: Domestic Politics and Foreign Policy*, Berkeley, California: Institute of East Asian Studies, University of California, 1988.

<sup>7</sup> David Wurfel and Bruce Burton, *The Political Economy of Foreign Policy in Southeast Asia*, London: The Macmillan Press, 1990, pp. 5 make such an argument in defense of their argument that the political economy framework would best suit the study of foreign policies of Southeast Asian states. KJ Holsti, in his essay titled "The comparative Analysis of Foreign Policy: Some Notes on the Pitfalls and Paths to Theory, in this same publication argues that nation and state building – a domestic issue that confronts most developing countries is a universal problem of comparative foreign policy. Pp. 17.

two decades need studying. Yet equally important is the external environment because given the increasingly globalized world, foreign policy of even small states, is to a relevant extent, a reaction to external events, trends and issues. Equally vital in understanding MFP is the state's unique domestic factors, in particular the need for development, ethnic integration and regime maintenance.

As for foreign policy outputs, this study draws from the framework provided by Holsti<sup>8</sup> and Saravanamuttu.<sup>9</sup> Both argue that foreign policy outputs range in scope from the general to the specific. Holsti uses the terms orientations, national roles, objectives and actions, while Saravanamuttu views foreign policy outputs in terms of objectives, postures, strategies and actions. Orientations, Postures and National roles encompass a state's general attitude and its fundamental strategy for accomplishing its domestic and external objectives. Objectives refer to conditions that governments aspire to bring about through their policies. Strategies are lines of action that a state employs as a means of securing its objectives. And Actions are things governments actually do to implement policy.

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<sup>8</sup> Holsti, K.J., *International Politics: A Framework of Analysis*, Englewood Cliffs, New Jersey: Prentice Hall 1977, pp 106 - 109

<sup>9</sup> Saravanamuttu, J., *The Dilemma of Independence: Two Decades of Malaysia's Foreign Policy 1957 - 1977*, Penang: University Science Malaysia, 1983, pp. 10

The outputs of this study consist of seven major and 16 component MFP initiatives, which are examined in terms of their objectives, strategies and actions.

### **1.3 INDEPENDENT VARIABLES OF THIS STUDY**

#### **1.3.1 The Idiosyncratic Factor**

This variable refers to the role of the idiosyncrasy of the primary personality – Prime Minister Mahathir Mohamed - in the making and shaping of MFP. Mahathir's idiosyncrasy is constructed through the weaving together of three major aspects, which act as sub-variables - his individual traits, his political ideology, and political leadership style. It is developed through an examination of his intellectual biography that traces various facets of Mahathir's personality such as his values, traits, perceptions, beliefs, talents, prior experiences, personal likes and dislikes, plebian background, mixed ethnic roots, non-political upbringing and education. His political ideology is traced by following its evolution in some four decades of varied political life. And his leadership style is discerned from studying national decisions taken in the two decades that he occupied the nation's two most powerful offices – Premier and President of the ruling party, UMNO.

### 1.3.2 Domestic Factors

This variable encompasses domestic political, social, economic, historical and societal factors that impacted MFP. The following fundamental assertions are considered in the formulation of this variable. One, that MFP in the Mahathir era was, (as were the major domestic policies), a response to the fundamental divisions based on ethnicity, religion and culture within Malaysian society. Considerable components of MFP thus arose out of the need to serve the twin goals of national integration, namely social engineering and wealth redistribution. Two, foreign policy initiatives were deployed to ensure the stability, maintenance and promotion of the regime as well as to dilute fundamental challenges to it. Three, foreign policy served to fuel the engine of economic growth and development through external assistance in the form of FDI, technology, and markets for Malaysian goods and services. This variable thus consists of three sub-variables namely National Development, National Integration and Regime Maintenance, and the impact of each on MFP is examined.



### 1.3.3 External Variables

This variable encompasses global and regional events, trends and processes as well as the behavior of select foreign nations that had profound effects on MFP in the Mahathir era. The Mahathir era coincided with two major global and regional developments: (i) the demise of the Cold War and the related collapse of the communist bloc and (ii) the spread of regionalism and globalization.

The following major assertions are considered in the formulation of this variable. First the Cold War caused MFP to abandon its reliance on neutrality viz a viz the East-West divide, come to terms with the resultant global economic and political dominance by the USA and the West and to re-examine its role in international organizations such as the Non-aligned Movement, NAM. Second, the conversion of a score of former command economies into open market economies after the collapse of the communist bloc acted as a catalyst for the shifts in MFP. Third, MFP had to balance between the forces of globalization and regionalism particularly in the midst of the 1997 regional financial crisis. And finally, the above global events translated into changed parameters for Malaysia's perception of security and defense.

This variable further encompasses the behavior of Malaysia's immediate neighbor and economic rival, Singapore; the region's economic powerhouse and Malaysia's top investor, Japan; and Asia's military super power and emigrant homeland of a third of Malaysia's population, China. Three major assertions are of relevance here. First, the behavior of Singapore and China affected the security, defense and threat perceptions of MFP. Second Japan replaced Britain as Malaysia's number one bilateral partner. Third, all three had an impact on the commerce and developmental diplomacy aspects of MFOP

#### **1.4 DEPENDENT VARIABLES**

The dependent variables of the study take the form of seven major policy outputs – Buy British Last, Anti-Commonwealth, Look East, Third World Spokesmanship, Regional Engagement, Islamic Posturing and Commercial Diplomacy. Within each of these outputs, sixteen component foreign policy initiatives are examined. Buy British Last consisted of two separate initiatives, BBL1, which was initiated in 1981 and lasted 18 months, and the 1994 BBL2, which lasted half that period. Third World Spokesmanship is examined across five foreign policy initiatives – The Antarctica Policy, Apartheid, the Global Environment, South-South Cooperation and MFP's push for a New World

Order. Islamic Posturing is studied across seven issues namely the Liberation of Palestine, the Soviet invasion of Afghanistan, Iraq (the two Gulf Wars and its 8-year war with Iran), Bosnia and the US War on Terror. Commercial and Developmental Diplomacy is looked at across two different initiatives - developmental and commercial. The former refer to MFP's efforts in attracting foreign funds, technology and expertise to fuel the nation's development, while the latter refers to the policy's role in creating markets for Malaysian products and in facilitating reverse investments.

All of the seven major MFP outputs and 16 component MFP initiatives above are analyzed in terms of their objectives, strategies and actions.

It is believed that such a framework allows for a comprehensive explanation of MFP and enables analytical depth. The examination of three main and six component independent variables over seven major and 16 component MFP outputs helps realize both goals.

## **1.5 THE CASE OF MALAYSIAN FOREIGN POLICY**

Malaysia's fourth and longest serving premier Mahathir acted as a Third World iconoclast in every sense of the word. In two decades of tenure he changed the face of virtually all aspects of domestic and foreign policy. His regime oversaw the end of the country's definitive New Economic Policy,

ushered the nation into the ranks of a NIC, steered the country's recovery from two devastating economic financial and political crises, put an end to Britain's priority relationship with Malaysia, formed a partnership with the USA in the super power's war on terror and emerged as the putative champion of the developing world. Foreign policy under Mahathir underwent fundamental changes from a traditional one focusing on security and defense to a modern, and assertive one emphasizing the pragmatic concerns of commercial and developmental diplomacy.

Given the iconoclasm of the Mahathir period, and the idiosyncratic differences of the premier as compared to his three predecessors, it is tempting to focus exclusively either on these individual factors or on his decision making style and arrive at the conclusion that MFP under the Mahathir regime embodies nothing more than the premier's proclivities.

Such a tendency is discernible from the literature on MFP, which is both scant and wanting<sup>10</sup>. In literature that can be considered academic, the most

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<sup>10</sup> Published literature dealing with MFP covering the past three decades consists mainly of collections of foreign affairs related speeches, biographies, collections of seminar papers, as well as diplomatic accounts by practitioners and insider accounts. Ghazalie Shafie, Malaysia: *International Relations, Selected Speeches*, KL: Creative Enterprises, 1982 is a collection of his own speeches, made mainly in his capacity as foreign minister until 1982. Mahathir's speeches have been published in a variety of publications as well. For instance Makaruddin Hashim (ed) *Globalization, Smart Partnership and Government*, Malaysia: Pelanduk Publications, 2000. Nadarajah, K.N's., *Tengku Ahmad Rithauddeen: His Story*, Malaysia: Pelanduk Publications, 2000 stands as an example of a biography. Rithauddeen served as foreign minister in the first 6 years of the Mahathir era. His biographer was a career diplomat. An example of a publication which is a

prominent theoretical models used have been the “decision making style” model, the “idiosyncratic model” and the “elitist” model. In studies wherein iconoclasm is not used, “single factor” analytical accounts abound.

The idiosyncratic model, for instance is relied upon in Chamil Wariya’s *Dasar Luar Era Mahathir*<sup>11</sup> (Foreign Policy in the Mahathir Era). His work equates MFP to the man at its helm and adopts a patently biased attitude<sup>12</sup> in favor of Mahathir. Published during a period when the Prime Minister was facing a debilitating challenge from members of his own party and cabinet (among whom was foreign minister Dr. Rais Yatim) Wariya’s work seems driven by some degree of political motivation.<sup>13</sup>

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collection of papers is Mohd Azhari Karim, Llwellyn D. Howell, and Grace Okuda (eds.), *Malaysian Foreign Policy: Issues and Perspectives*, KL: INTAN, 1990. Kumaraseri, G.K.A’s., *Professional Diplomacy and the Management of Foreign Affairs: The Malaysian Experience*, Malaysian Experience KL: Dewan Bahasa dan Pustaka, 1995 is an example of a diplomatic account, while Abdullah Ahmad’s *Tengku Abdul Rahman and Malaysian Foreign Policy 1963 -1970*, KL: Berita Publishing 1985 stands as illustrative of an insider account. Abdullah claims to have served in capacities that allowed him access to foreign policy decision-making.

<sup>11</sup> Chamil Wariya, *Dasar Luar Era Mahathir*, PJ: Fajar Bakti, 1989.

<sup>12</sup> Such a conclusion is rather easily discernible from the book. For instance, he says in his introduction that PM Mahathir has filled the vacuum crated by world statesmen as Nyerere, Kaunda, Sukarno, Nehru, Tito, Nasser and others; that he is *most* sought after by foreign journalists for his views on international issues; and that the Premier’s photos *decorate* the covers of international publications - which according to the writer is something that has *not* happened to Mahathir’s predecessors. Again in chapter 8, he says that the international community recognizes the Premier as a world leader. (Translated from original text in Bahasa Malaysia on my own) Italics added. See Ibid, pp. i - vii.

<sup>13</sup> The political intonation in the book hardly remains discrete when the author castigates Dr. Rais Yatim by opiniating regarding the former foreign minister: “...is incapable not only in the Ministry of Foreign Affairs, but in *all* other ministries. In fact if such a leader were appointed to an all-important ministry, his leadership would result in that particular ministry being considered unimportant... (Comment translated from original text in Bahasa Malaysia on my own) Italics added. See Ibid, pp. 111 and 124.

Academicians RS Milne and Diana K Mauzy in their work titled *Malaysian Politics under Mahathir*,<sup>14</sup> similarly employ the elitist model when analyzing foreign policy. Their work concludes that MFP under Mahathir is pragmatic yet undoubtedly iconoclastic. Even though the thoroughly researched “Mahathir impact” as presented by Milne and Mauzy is of starkly superior scholarship when compared to Wariya’s patronizing work, its theoretical mould is nevertheless overwhelmingly idiosyncratic.

Murugesu Pathmanathan and David Lazarus’s *Winds of Change: The Mahathir Impact on Malaysian Foreign Policy*<sup>15</sup> deploy the decision-making style model – a variant of the idiosyncratic and elitist model. Their work suggests that it was the leadership style of the nation’s elite that best explained foreign policy outcomes. Their thesis can be summed up as follows: foreign policy decisions and outcomes are the result of the style of governance of those in power.

Writers adopting the idiosyncratic model to explain MFP in the Mahathir era are, in essence, suggesting that little has changed since T.H. Silcock<sup>16</sup> declared

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<sup>14</sup> Milne, RS and Diane K Mauzy, *Malaysian Politics Under Mahathir*, NY: Routledge, 1999.

<sup>15</sup> Murugesu Pathmanathan and David Lazarus, *Winds of Change: The Mahathir Impact on Malaysian Foreign Policy*, KL” Eastview Productions, 1984.

<sup>16</sup> T. H Silcock, “Development of a Malayan Foreign Policy,” in *Australian Outlook*, Vol 17, 1963. The first Para continues: We can see written all over (MFP) his personal qualities: his modesty, his habit of playing by ear and relying on political intuition, his ego humored friendliness to all around him; and his mild but strongly held attachment first to the happiness and next to the dignity of ordinary people – Malays first and come non-whites next, but without personal bitterness. We should not expect from the Tunku any great subtlety or much argument from

four decades ago that “MFP owes more to the personality of its Prime Minister than is usual even in the foreign policies of new states.” Or as Robert Tilman<sup>17</sup> argued some time later: “Though no policy maker operates in a social or political vacuum, the Tunku has probably been the man most responsible for the general tenor of MFP.” Or as Marvin C. Ott, in his seminal work “The Foreign Policy Formulation in Malaysia”<sup>18</sup> argued that foreign policy making in Malaysia was an “elite dominated process with minimal domestic inputs and pressures.”<sup>19</sup>

Elsewhere and more specifically, Ott opined:

“Malaysian foreign policy can best be understood in terms of a decision making elite coping with the international environment. The elite, dominated by the Prime Minister and comprising only five men, exhibited striking stability of membership and consensus of views.”<sup>20</sup>

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principle. We might guess that if his briefs were too detailed they would not be read. And it is possible to look for more consistency than can be found,” pp. 42.

<sup>17</sup> Robert O. Tilman, “Malaysian Foreign Policy: Dilemmas of a Committed Neutral,” in *Public Policy*, Harvard University, 1967, pp.119. Tilman, in a section devoted to the future of MFP does however point out that domestic factors such as nation building would have to be given due regard in the foreseeable future.

<sup>18</sup> Marvin C. Ott, “The Foreign Policy Formulation in Malaysia,” in *Asian Survey*, 12, 1973

<sup>19</sup> *Ibid*, pp. 239

<sup>20</sup> Marvin, C. Ott, *The Sources and Content of Malaysian Foreign Policy Towards Indonesia and the Philippines 1957 – 65*, PhD Thesis, The Johns Hopkins University, 1971. pp. 2. Other scholars who have emphasized the use of idiosyncratic factors include Levi Werner, *The Challenge of World Politics in South and Southeast Asia*, NJ: Englewood Cliffs, 1968, and Robert Tilman, “Policy Formulation, Policy Execution and Political Elite Structure in Contemporary Malaya,” in Wang Gungwu, ed., *Malaysia: A Survey*, London: 1964.

Giving an insider account of MFP during the period of Malaysia's first prime minister, Abdullah Ahmad<sup>21</sup> validated Ott. Abdullah's main thesis is that the personality of the anglophile Tengku had the most important bearing on the substance and direction of Malaysian foreign policy during the period concerned.<sup>22</sup>

Thus, to those subscribing to the "great man theory of history" Mahathir is to contemporary MFP what Tunku was in Silcock, Ott's and Abdullah's scheme of things forty years ago.

For writers adopting the decision making style model to analyze MFP in the Mahathir era, little seems to have changed since Richard Boyce, in his

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<sup>21</sup> Abdullah Ahmad, *Tengku Abdul Rahman and Malaysian Foreign Policy 1963 -1970*, KL: Berita Publishing, 1985.

<sup>22</sup> So pronounced is Abdullah's obsession with individuals and their idiosyncrasies, that it becomes difficult to accept that such insights into any one individual's mind can be obtained by objective and scientific methods. A total of 330 sources are quoted in the entire book of which a third are listed as personal sources, interviews, personal knowledge, non-attributable sources, secret sources, author was present at discussion and conversations with people. Saravanamuttu, in a review of Abdullah's book when it was first published wrote: "insider accounts are notorious for their biases, and it would seem. At many points of the book, the author does not divorce his political views from a properly dispassionate analysis of the Tengku's foreign policy." See Saravanamuttu's book review essay in *Kajian Malaysia Journal of Malaysian Studies*, Penang: Universiti Sains Malaysia, Vol. IV, No. 1, pp. 105-106. Zakaria Ahmad argues that Abdullah's desire to equate MFP solely with the prime minister was motivated by his desire to lessen the credit for MFP decisions claimed by TAR's foreign minister Ghazalie Shafie. Says Zakaria: "This may have been the hidden theme in Abdullah's book...some observers believe it was written to denigrate Ghazalie Shafie's role in Malaysian foreign policy, in part motivated by Abdullah's desire to hit back at the man who had jailed him in 1976." See Zakaria Ahmad, "Malaysia's Foreign Policy: Looking Back and Looking Ahead or Looking Outwards and Moving Inwards," in Mohd Azahari Karim, *Malaysia Foreign Policy*, pp. 138, footnote 18. Abdullah has defended his analysis as appropriate. Five years later, he wrote: "...it was the Tengku and nobody else who made foreign policy - despite contrary claims by an individual whose only basis to that claim is long tenure at Wisma Putra (Ministry of Foreign Affairs)." See Dato Abdullah Ahmad, "Malaysian Foreign Policy: A critique" in Mohd Azahari Karim *Ibid*, pp. 109



analysis of foreign policy making in Malaysia during the same period covered by

Ott opined regarding the decision-making style model:

“One of the most striking features of the machinery of foreign policy making in Malaysia has been the stability and continuity of the small politico-bureaucratic elite, which has controlled Malayan and Malaysian foreign policy since merdeka in 1957.”<sup>23</sup>

In the “single factor” analysis category, Shanti Nair’s two works titled *Religious Identity in Malaysian Foreign Policy*<sup>24</sup>, and *Islam in Malaysian Foreign Policy*<sup>25</sup> stand out. As the titles of her works suggest, Nair’s contention is that Islam acted as a predominant force in MFP’s direction in the Mahathir era, the impetus for which came from domestic political pressures. Richard Stubbs<sup>26</sup> on the other hand, sees political economy as the driving force for foreign policy outputs during the Mahathir era. David Camaroux<sup>27</sup> in turn argues that a concentration on domestic factors allows one to best explain MFP during the Mahathir period:

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<sup>23</sup> Boyce, P.J., *Foreign Affairs of New States: Some Questions of Credentials*, Australia: University of Queensland Press, 1977, pp. 215

<sup>24</sup> Nair, Shanti, *Religious Identity in Foreign Policy: Islam, Malaysian Foreign Policy and the Mahathir Administration*, Routledge: New York, 1996

<sup>25</sup> Nair, Shanti, *Islam in Malaysian Foreign Policy*, Routledge: New York, 1998.

<sup>26</sup> See Stubbs, Richard, in “The Foreign Policy of Malaysia,” in Wurfel David and Bruce Burton, *The Political Economy of Foreign Policy in South East Asia*, London: The Macmillan Press, 1990, pp. 101 - 121.

<sup>27</sup> Camaroux, David, *Looking East and Inwards: Internal Factors in Malaysian Foreign Relations During the Mahathir Era, 1981 –1994*, Australia: Griffith University, 1994.

“in the case of a self-consciously multi-ethnic society such as Malaysia, it will be suggested that domestic exigencies take on a particular salience... and have significant impact on MFP.<sup>28</sup>”

Razak Baginda's *Malaysia's Defense and Foreign Policies*,<sup>29</sup> deploying the single factor analysis, suggests that external factors helped shape MFP more than anything else. In the chapter titled “The Major Powers and Malaysian Foreign Policy,”<sup>30</sup> the writer argues that the new strategic requirements of the United States and Russia, economic pragmatism of China, Japan's continued drive to attain the status of an economic superpower and India's attempts to forge new allies after the demise of its erstwhile ally, the Soviet Union are the major factors that dictate the direction of post-Cold War Malaysian foreign policy. In a subsequent chapter titled “Southeast Asia in Malaysian Foreign Policy,”<sup>31</sup> the writer suggests that regional concerns, in particular those connected with economics, act as the driving forces of MFP. In his view, this “economics-first” approach to MFP is linked to the state of play in the rest of the high growth western rim of the Asia-Pacific region. It is also his analysis that given the

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<sup>28</sup> *Ibid*, pp 5.

<sup>29</sup> Abdul Razak Baginda (ed.). *Malaysia's Defense & Foreign Policies*, KL: Pelanduk Publications, 1995.

<sup>30</sup> *Ibid*, pp. 25 - 52.

<sup>31</sup> *Ibid*, pp. 53 - 71.

increasing reliance on regional economic instruments such as APEC and AFTA to spur domestic economic growth, MFP increasingly resorted to regionalism.

Comprehensive analyses of MFP have been few. Saravanamuttu 's study of MFP during the first two decades since independence, *The Dilemma of Independence: Two Decades of Malaysia's Foreign Policy 1957 - 1977*, pioneered a break from the elitist and decision making styles.<sup>32</sup> Drawing from the comparative model, Saravanamuttu studied, as independent variables the of MFP, the eco-historical, external, internal and idiosyncratic factors across three issue areas, namely defense and security, development and trade, and international cooperation and diplomacy. Mohd Yusof Ahmad<sup>33</sup> in his study of MFP coinciding with the first five years of Mahathir's two-decade rule also applied a comprehensive approach. His work employs three independent variables, personality, internal and external factors to establish the proposition (amongst others) that the substance and character of MFP under Mahathir's initial rule showed evidence of continuity with the policies of his pre-decessors

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<sup>32</sup> Saravanamuttu, J., *The Dilemma of Independence: Two Decades of Malaysia's Foreign Policy 1957 - 1977*, Penang: University Science Malaysia, 1983. In a subsequent article, Saravanamuttu has continued his analysis up to the period 1980) Saravanamuttu, J., "Malaysia's Foreign Policy 1957 - 1980," in Zakaria Ahmad (ed.), *Government and Politics of Malaysia*, Singapore: Oxford University Press, 1987.

<sup>33</sup> Ahmad Mohd Yusof Bin, *Continuity And Change In Malaysia's Foreign Policy, 1981-1986* Unpublished PhD Thesis, Fletcher School Of Law And Diplomacy (Tufts University), 1990.

and that observable change was neither permanent nor substantive – a finding wholly repudiated by this study.

The theoretical framework of this study is motivated by the beliefs that the sources of foreign policy are mixed and multifarious; that both the external and internal environment of the state as well as personality factors are important in the explanation of foreign policy; and that it is the interplay of these factors that produces a particular foreign policy output.

The comprehensive model embodies a critique of the idiosyncratic, elitist and single factor models as being too narrow and being obsessed with analyzing the minds of elites and their decision-making styles instead of the substance of foreign policy as well as feeding into the prevalent belief that foreign policy making in developing countries is purely idiosyncratic and unconcerned with domestic processes and national priorities. While recognizing the importance of individual factors, this study is guided by the proposition that the shift in MFP during the Mahathir era can neither be attributed solely to the idiosyncrasy of Mahathir, nor explained adequately in terms of single factors, but rather that it can be explained in terms of the interaction of several factors.

In doing so, this work has aimed to draw from and build upon the existing works and provide for more comprehensive and systematic explanations of the

substance, nature and character MFP during the Mahathir era, and thus contribute to the research problem outlined above – the scanticity of comprehensive analysis of MFP.

## 1.6 STRUCTURE OF THE STUDY

The thesis consists of seven chapters as outlined below:

**Chapter 1:** Framework of Analysis, Literature Survey, Statement of the Research Problem (The Case of Malaysia) and Methodology.

**Chapter 2:** The Sources of MFP under the Mahathir era (1981 - 2003): The Idiosyncratic Factor.

**Chapter 3:** The Sources of MFP under the Mahathir era (1981 - 2003): Domestic Factors.

**Chapter 4:** The Sources of MFP under the Mahathir era (1981 - 2003): External Variables.

**Chapter 5 & 6:** Analysis of MFP Outputs 1981 – 2003.

**Chapter 7:** Conclusions.

The first chapter surveys the relevant theoretical literature, provides a statement of the research question and indicates the analytical framework that is used in the study.

The second, third and fourth chapters expound on the three independent variables and all factors related to each variable that form the sources of MFP in the period of study; the reasons for selecting these factors, and their relevance and their relationship with the form and substance of foreign policy.

The fifth and sixth chapters analyze seven major and 16 component foreign policy outputs covering the period of study and attempt to explain the outputs in terms of the interaction of independent sources.

The final chapter summarizes the findings of the thesis in the form of summary statements and conclusions and offers some reflections on the thesis process.

## **5.0 DATA COLLECTION**

Much of the data required for this study is discerned from secondary sources. Primary data, where necessary, was collected using qualitative research techniques, namely the direct (non-disguised) procedure that relied on interviews through personal correspondence with individuals, who, in my opinion were in a position to provide relevant information to the questions that need answers for my analysis. These individuals have included appropriate officers in the Ministry of Foreign Affairs, Prime Minister's Department, the Ministry of International Trade and Industry, serving and retired diplomats,

selected politicians, think tanks, academics and other selected individuals, many of whom had become known to me in my fifteen years of work first as a journalist and then within the government. My personal and professional experience of having served in establishments servicing the Malaysian domestic and foreign policy environment for more than a decade helped in the collection of data. These interviews and correspondence took the form of unstructured personal communication, the objectives of which were to uncover underlying motivations, beliefs, attitudes and feelings relating to the foreign policy processes being studied. Some of these individuals have allowed themselves to be identified, while others, for a variety of concerns have requested anonymity. This has been granted based both on the legitimacy of their concerns, and the fact that had anonymity not been agreed upon, some of the information exchange may not have taken place.

## CHAPTER 2: THE SOURCES OF MALAYSIAN FOREIGN POLICY 1981-2003: THE IDIOSYNCRATIC FACTOR

### 2.1 INTRODUCTION

This chapter outlines the idiosyncrasy of the primary elite responsible for the making and shaping of MFP. The principle proposition here is that Prime Minister Mahathir's personality, political ideology, brand of nationalism and leadership style had a profound impact on the shape, direction and rhetoric of the nation's foreign policy during his two-decade rule.

### 2.2 METHODOLOGY

For the purposes of this Chapter, idiosyncrasy is defined as a "peculiarity of the mental constitution or temperament of a person." It is the individual bent of mind or inclination peculiar to a person.<sup>1</sup> Foreign policy literature defines the concept to include various facets of individual behavior such as values, personality traits, perceptions, beliefs, talents, prior experiences, educational background, memories, personal likes and dislikes and social background attributes.<sup>2</sup> More recent literature emphasizes the conditions in which

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<sup>1</sup> Definition extracted from *Oxford English Dictionary Online*, Second Edition. WWW. dictionary.oed.com

<sup>2</sup> James N Rosenau, *The Scientific Study of Foreign Policy*, pp 94, and Patrick McGowan and Howard Shapiro, *The Comparative Study of Foreign Policy*, pp. 40.



idiosyncratic differences might make a difference and these are likely to be a function of the degree of interest shown by the individual in foreign policy, the ultimate involvement in the foreign policy process, the amount of decisional latitude and how high one is in the decision making hierarchy.<sup>3</sup>

When attempting to provide comprehensiveness to the idiosyncrasy factor, there is a need to consider leadership style as an additional component. While leadership style is distinct from personality and personal factors, it is, in particular circumstances, influenced by idiosyncrasy and impacts on policy outputs in a peculiar way. Jackson and Rosberg develop the concept of “Personal Rule” to signify leadership styles that prevail in personalized political environments.<sup>4</sup> Mahathir’s Malaysia does not fall neatly into Jackson and Rosberg’s typology of personal rule. Yet it reflects a leadership style that at times bordered on a sophisticated and benign “personal rule” albeit one replete with political institutions that were only sufficiently subjugated. However, what is more relevant for this chapter is the general proposition deployed by the authors in developing the typology – that the personalities of the key players determine

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<sup>3</sup> Lloyd Jensen, *Explaining Foreign Policy*, pp. 1-12.

<sup>4</sup> Robert H Jackson and Carl G. Rosberg, *Personal Rule in Black Africa: Prince, Autocrat, Prophet, Tyrant*, London: University of California Press, 1982.

the leadership style<sup>5</sup>. Mahathir's personality dictated his leadership style, and that in turn had an impact on the nature, substance and style of MFP in his era. This chapter therefore considers Mahathir's leadership style as being integral to his idiosyncrasy.

Consequently, the attempt to construct the idiosyncratic variable in this chapter involves the weaving together of the following main components: Mahathir's individual traits, his political ideology and his political leadership style.

Mahathir's idiosyncrasy is developed in this chapter through an examination of his intellectual biography. It is perhaps worth stating at the outset that attempting to understand the idiosyncrasy of an individual is a daunting if not impossible task. It is judgmental and subject to the biases and leanings of the researcher. It is inherently complex and in the two decades of his rule, Mahathir has many a time amply illustrated this fact. The premier's political foes and allies readily admit that complexity and unpredictability stand out as his personal traits. One thoroughly researched and scholarly biography of Mahathir, depicts the premier's worldview as consisting of complex and alternating patterns of

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<sup>5</sup> *Ibid*, pp 76 "The political factors that seem most to affect the type of personal system that emerges are the dispositions, activities, abilities, efforts and fortunes of the key actors; the system is largely their political handiwork."

consistencies and contradictions.<sup>6</sup> Yet there are two factors that have made this chapter's task academically feasible, and hence form the backbone of the methods used.

The first is Mahathir's proclivity towards writing and speaking out. Over a period of three decades, he has authored some 20 books<sup>7</sup> and numerous essays all of which were undeniably aimed at putting out into the open his views and arguments on a variety of issues. Throughout his political career, he has made some 2,500 speeches. Mahathir's speeches have been extensively published; on a regular basis by two government agencies, namely the Ministry of Information, which publishes some 50 of his official speeches annually, and the Ministry of Foreign Affairs' quarterly *Foreign Affairs Malaysia*, which focuses on the premier's official speeches relating to external relations; and occasionally by the Prime Minister's Department itself.<sup>8</sup> A good number of speeches are available on a website set up for this purpose<sup>9</sup>. Mahathir has also given ample interviews to the

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<sup>6</sup> Khoo Boo Teik, *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir*, KL: Oxford University Press, 1995. This work was originally submitted as the author's doctoral thesis at Flinders University, Australia.

<sup>7</sup> See this study's bibliographic section for list of Mahathir's books.

<sup>8</sup> Makaruddin Hashim, *Selected Speeches by Dr Mahathir Mohamed Volume 1*, Petaling Jaya: Pelanduk Publications, 1995 and *Selected Speeches by Dr Mahathir Mohamed Volume 2*, Petaling Jaya: Pelanduk Publications: 2000.

<sup>9</sup> The website of the Prime Minister's Department: [www.smpke.jpm.my](http://www.smpke.jpm.my)

local and foreign media and on occasion to non-journalist writers and analysts. A good number of these interviews, whose numbers run into the hundreds are long, wide ranging and off the cuff. Mahathir himself has thus provided ample primary material that can undoubtedly provide insights into both the substance of his ideas as well as his personality.

One may, at this juncture, raise a critique relating to Mahathir's writings and speeches as being his own. National leaders often have at their disposal individuals and institutions whose business it is to write official speeches and even books. The creation of ISIS by Mahathir and his handpicking of loyal individuals with exceptional writing and analytical abilities to staff the think tank<sup>10</sup> lend credence to such a view.

The answer to this critique lies in the personal preferences of Mahathir. While it is true that civil servants and staff of think tanks did write Mahathir's official speeches, the premier is known to treat speeches that deal with positions and arguments of his administration with a personal diligence to the extent of

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<sup>10</sup> The Chairman and CEO of ISIS is Nordin Sopiee, a prominent local intellectual who wrote extensively in support of government positions on a variety of foreign issues. Sopiee's loyalty was perhaps best displayed in a full page advertisement he personally put out apologizing to the prime minister for the offense of having joined an applause during a APEC Summit speech given by then US vice president Al Gore in Kuala Lumpur. Al Gore had, in that speech declared the anti-Mahathir *Reformasi* Movement (led by sacked and jailed deputy Anwar Ibrahim) as heroic. See *The New Straits Times*, November 21, 1998. ISIS Director General, Jawhar Hassan, is a retired civil servant who served out most of his government career in the Ministry of Home Affairs and the nation's domestic and foreign Intelligence agencies.

drafting them himself.<sup>11</sup> The researcher thus has the function of sorting out major policy speeches from the ceremonial, and to rely on the former as primary sources of Mahathir's thought. Additionally, since Mahathir has been writing extensively even before his advent into political leadership,<sup>12</sup> it is possible to figure out if the language and ideas of his new writings resemble that of his old. It is argued that reading Mahathir gives a sense of connected ideas over extended periods of time on subjects that are close to his heart, hence the conclusion that his writings are by and large his own.

Khoo has conducted an in-depth textual analysis of Mahathir's writings spanning over 45 years.<sup>13</sup> While his main objective was to demonstrate the evolution of Mahathir's ideas, his work also established a proposition relevant to this study; namely that Mahathir's writings are indubitably his own and that the

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<sup>11</sup> The Asian Strategy and Leadership Institute, a think tank, which came into being during the Mahathir era and has produced extensive writings in support of Mahathir's policy positions takes the position that "very often he (Mahathir) writes his own speeches." See Hng Hung Yong, *CEO Malaysia*, pp. 15. Tengku Ahmad Rithaudeen – who held Trade, Information, Defense and Foreign Minister portfolios in Mahathir's cabinet and was a close Mahathir ally, says: "more often than not, Mahathir goes through the draft (written by other agencies) and changes it to express his views. Dr Mahathir has his own mind...when the speech is finally delivered, it may be totally different from the draft...this is not unusual," See KN Nadarajah, *Tengku Rithaudeen, His Story*, KL: Pelanduk Publications, 2000, pp 164.

<sup>12</sup> Mahathir's earliest published writings are essays he published under a pseudonym of "C.H.E. Det" in Singapore's *Straits Times* in the late 1940s. His controversial and most widely read book, *The Malay Dilemma* was published in 1970. It remained banned by the government until Mahathir became Prime Minister in 1981.

<sup>13</sup> See Khoo, *Paradoxes*, pp. 13, 81-82.

premier's important speeches on major issues such as foreign policy, economy and Islam are self-written.<sup>14</sup>

The second factor that has made this task academically feasible has to do with Mahathir's long rule. Mahathir came to power in July 1981 and retired in October 2003. To these twenty-two years of prime minister ship, one is at liberty to add another 11 years of political involvement as senator, parliamentarian, cabinet minister and deputy prime minister. This long period is undoubtedly a blessing to a researcher attempting to put together pieces of Mahathir's idiosyncrasy puzzle in some coherent sort of way simply because it provides a wide array of events to look at. A second advantage of this long and varied political life has been the rather relentless examination of the prime minister in the form of biographies.<sup>15</sup> This advantage, however, needs to be balanced with

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<sup>14</sup> *Ibid*, pp. 10 – 12.

<sup>15</sup> Some of the biographies on Mahathir include the following. Victor Morais, *Mahathir: A Profile in Courage*, KL: Eastern Universities Press, 1981 is a journalistic account of the prime minister's profile. *Profile of Dato Seri Dr Mahathir Mohamed*, KL: Ministry of Information, 1982 is a government publication that details the premier's career. Rahmanmat, *Mahathir a Savior of the Malay Race?* KL: Golden Books, 1982 traces Mahathir's treatment of the Malay student movement. Robin Adshead, *Mahathir of Malaysia*, UK: Hibiscus Publishing Company, 1989, is a photojournalistic account of the prime minister and is based on interviews with Mahathir. Mustafa Ali Mohamed, *Mahathir Mohammad*, PJ: Pelanduk Publications, 1986 is a Malay language biography that attempts to trace the patrilial lineage of Mahathir. Hassan Hj Hamzah, *Mahathir: Great Malaysian Hero*, KL: Mediaprint Publications, 1990. Aziz Zariza Ahmad, *Mahathir: Triumph after Trials*, KL: Abdul Majeed & Co, 1994 attempts to sketch the triumphant traits of Mahathir. Zainuddin Maidin, *The Other Side of Mahathir*, KL: Utusan Publications, 1994 is the account of the author, a journalist who claims to have enjoyed a personal relationship with the premier. Aziz Zariza Ahmad, *Mahathir's Paradigm Shift: The Man Behind the Vision*, Taiping: Firma Publications, 1997 focuses on Mahathir's vision 2020 – the desire to make Malaysia a fully developed country by that year. Hng Hung Yong, *CEO Malaysia: Strategy in Nation Building*, Msia: Pelanduk

the critique of the more serious researcher regarding the worth of some, if not most of these biographies, in being able to provide balanced assessments of the premier. The most relevant critique stems from the idiosyncrasy of the Mahathir era itself. A political climate, which tends to beatify loyalties and faithfulness<sup>16</sup> undoubtedly, inspires some to deploy favorable writings to help the authors climb political, career, and business ladders. The argument that this has been the case in the Mahathir era has its merit.<sup>17</sup>

This chapter is organized into three sections. One is devoted to studying Mahathir's individual traits, the second to his political ideology, and the third the

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Publications and ASLI, 1998 contains selected speeches of the prime minister and a commentary on a variety of policies and programs associated with the premier.

<sup>16</sup> Aziz Zariza Ahmad underlines this in *Mahathir's Paradigm Shift*, KL: Firma Malaysia Publishing by arguing that "faithfulness is an important trait of Mahathir himself." pp 17.

<sup>17</sup> The crucial weaknesses of some of these biographies are worth mentioning. Khoo has pointed out that a good many are quick productions meant to coincide with the rise of the premier's political ladder. He also points to the belief that some may be commissioned to improve the image of the premier. For instance Adshead's *Mahathir of Malaysia* was produced when public anti-Mahathir feelings ran highest. He has cast doubt on the publisher of Adshead's book by asserting "it would be interesting to know what other books are published by the 'Hibiscus Publishing Company' located in the United Kingdom, the hibiscus being Malaysia's national flower." Khoo also critiques Mustafa's *Mahathir Mohamed* as being lopsided, and Hassan Hamzah's *Mahathir: Great Malaysian Hero* as an attempt by the author to ingratiate himself with his hero. See Khoo Boo Teik, *Paradoxes*, pp. 5-6 and footnote 17 to chapter 1. Some of the biographies are written by individuals and institutions closely associated with the premier. Zainuddin Maidin (*The Other Side of Mahathir*) was the group chief editor of Utusan, a publishing company owned by the investment wing of the premier's party UMNO. He was later appointed as the deputy minister of information in Mahathir's administration. Hng's book *CEO Malaysia*, is a publication of Asian Strategy and Leadership Institute, ASLI whose founder and president is Mirzan Mahathir – the premier's son. While all the above biographies paint Mahathir in positive light, this is not to say the single one that does not - Rahmanmat's *Mahathir A Savior of the Malay Race?* is not without its shortcomings. Khoo argues that Rahmanmat "consumed by his own Malay nationalistic passion, is too anxious to secure a one dimensional conviction of Mahathir as someone who fell from the exalted position of a 'Malay savior' the higher he ascended the rungs of power." See Khoo Boo Teik, *Paradoxes*, pp. 6.

nature, style and manner of political leadership. The conclusion attempts to lay out their implications for foreign policy.

## **2.3 INDIVIDUAL TRAITS.**

Individual traits that most distinguish Mahathir from his three predecessors are his plebian background, (all three preceding prime ministers had royal linkages- either directly or through marriage), non-political upbringing, (all three pre-decessors had political role models within their families), local education (all former premiers attended foreign schools and universities), mixed ethnic roots, traditional family life, and medical training (as opposed to the legal background of all three former premiers).

### **2.3.1 Plebian Background**

Mahathir, born on 20<sup>th</sup> December 1925 in one of Malaysia's poorer states, Kedah, was the youngest of nine children that were the family of a self-made disciplinarian school head master Mohamed Iskandar. Forty years old at the time of Mahathir's birth, Iskandar is said to have maintained, within his home, a



discipline<sup>18</sup> and order<sup>19</sup> fit for the supervision of school pupils. This discipline required that Mahathir attend a secular English medium school<sup>20</sup> where he could be fined, caned or be put into detention class if he spoke any language other than English.<sup>21</sup> This, at a time when Malay Muslim parents widely believed that English and missionary schools tended to subvert their Islamic faith and traditions. Iskandar's discipline also required that Mahathir take religious lessons from a professional home instructor hired for his strict spiritual reputation, attend homework circles and take additional lessons outside of school curriculum which were supervised by Iskandar. The school master's vocation allowed him to keep the same hours as his school going children – giving him the rare opportunity of supervising his children both at school and home. One gets the impression that he was more a headmaster in both

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<sup>18</sup> Victor Morais quotes Mahathir as saying: "My father ran the home like a classroom." *Mahathir*, pp. 1

<sup>19</sup> Iskandar's penchant for order is perhaps illustrated in his choice of the same starting letter for all his five sons. Mahathir narrates to Victor Morais "He named me Mahathir mainly because he had a strange liking for the letter M. All my four brothers also got it – Murad, Mustaffa, Mahadi and Mashahor..., but not the girls" *op.cit*, pp 1. Interestingly, Mahathir has displayed an equally strange liking for the letter M. All his children (two girls and three boys) have names starting with M – Melinda, Mirzan, Mokhzani, Marina, and Mukhriz.

<sup>20</sup> Iskandar was first teacher and then the first headmaster of Sultan Abdul Samad (now renamed Sultan Abdul Hamid) school in Alor Star, Kedah. Mahathir attended this school throughout his secondary education.

<sup>21</sup> Robin Adshead has given a description of Mahathir's school days based on interviews with the premier and those close to him. See *Mahathir*, pp 21-34.

situations.<sup>22</sup> Iskandar's discipline further required that Mahathir, not leave the compound of his house even during the daytime and to mingle with the neighborhood children only if invited to the Iskandar home. Iskandar preferred that his children spend time instead in his English library that he had built at home. Such preferences turned Mahathir into an avid reader, bespectacled at an early age, and remembered by classmates for being a school librarian, editor of the school's English magazine, and perennial winner of the annual English prize.<sup>23</sup> All this in a school, which, being a near-exact transplant from the British educational system, emphasized, team games such as cricket, football and rugby.<sup>24</sup>

Mahathir's English education came to halt with the Japanese occupation of Malaya in 1942. He fitted into the Japanese language schools only as much as his

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<sup>22</sup> Mahathir's quote in Victor Morais, *Mahathir*, pp. 1 is illustrative, "I grew up in a very disciplined home. My father ran it like a classroom. The sound of his cough as he approached the house was enough to send us boys flying back to our books." Pp. 1. Robin Adshead, *Mahathir*, pp. 29 quotes Mahathir's class and home study circle mate Mukti: "His father was a very strict man. When we were doing our homework, he would sit on the sofa, smoking his pipe and reading the paper...he insisted on us working our regular periods, with breaks for tea and dinner, and then back to work."

<sup>23</sup> Interviews with Mahathir's classmates and teachers as quoted by Victor Morais, *Mahathir*, Chapter 1.

<sup>24</sup> As prime minister, Mahathir recounts: "I was never very good at football. They tried me at cricket, but I never took up to the game. I did learn to play rugby though, and enjoyed it." See Robin Adshead, *Mahathir*, pp.28. Contrast this with another of Iskandar's students – first premier Tunku who excelled in virtually every sport but performed miserably in educational pursuits. Victor Morais writes that Tunku was "playful and naughty beyond control" and, who often "made too much noise and disturbed other pupils in the class," - traits the Tunku owned up to much later. See pp 4 and 5.

father did into the new political environment. Iskandar lost his government job and his prized library was reduced to ashes. Amidst the poverty and emotional difficulties that were thrust upon the family, Mahathir waited for the British to return, - a state of affairs considered by many to be the natural outcome of eventual Japanese departure. The non-political nature of his family – Iskandar, either by design or by virtue of his government position, had kept his family rather apolitical<sup>25</sup> – and his own aspirations to further his studies in the United Kingdom kept Mahathir shielded from the anti-British sentiments that had begun to take root amongst some radical Malays, in particular students and school teachers. In any event, the re-establishment of British rule allowed Mahathir to return to and complete his high school, thus allowing him to contemplate a university education, a goal considered important by him in his desire to “become someone of importance and high standing within his own community.”<sup>26</sup>

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<sup>25</sup> Robin Adshead captures the a-political essence of the Iskandar family by including a quote, given in retrospect by Mahathir’s elder sisters Rafeah and Habsah: “We never expected a politician in the family. What we wanted was a doctor.” See *Ibid*, pp. 34. Mahathir’s wife Siti Hasmah said Mahathir showed no interest in aspiring for political office during their courtship days at the Medical College at Singapore. “If he had told me then...I would have laughed and regarded it as one big joke,” See *Ibid*, pp.39.

<sup>26</sup> Mahathir as quoted in *Ibid*, pp.33 –34. “Although I was keen on getting a legal or medical qualification for its own sake, that keenness was augmented by my need to...gain credibility.”

### 2.3.2 Mixed Ethnic Roots.

Mahathir's paternal grandfather was of Kerala Indian descent who lived in Penang, the northern island state which was home to many early Indian immigrants. Here he married Siti Hawa, a local Malay lady.

In a political system rooted in communalism, an individual's racial origin carries just as much meaning, connotations and consequences as does one's lack of pure ethnic roots. And this was bound to affect Mahathir.

The biographies of Mahathir - official or otherwise - give one the impression that there is an effort by the writers to downplay the fact that the premier's father was half Indian. The fact is mentioned in passing by some and ignored by others. One biography even goes so far as to contrive to confer a patrician Malay lineage on the prime minister.<sup>27</sup> Mahathir's birthplace - now a museum displays a genealogical chart of Mahathir's lineage through his mother Wan Tempawan, but has nothing on the father's side.<sup>28</sup>

The attempt to downplay Mahathir's mixed ethnic roots is reflection of racial stereotypes and religious prejudices that are present in the ethnic based

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<sup>27</sup> Mustafa Mohamed, *Mahathir*, pp. 3: "Mahathir's father was named Mohamad bin Iskandar and his mother was named Wan Tempawan, of Malay descent. His mother was descended from Malay leaders of long ago, so that the blood that runs through Mahathir's body is the blood of leaders. His mother is the descendant of Wan Su, that is Dato; Temenggong Kulut, Bukit Lada, Kedah." (Translated from original Malay text by author).

<sup>28</sup> See Khoo Boo Teik, *Paradoxes of Mahathirism*, footnote 21 pp. 15.

communal politics of Malaysian society.<sup>29</sup> Individuals of south Indian descent who convert to Islam (mainly by way of marriage to Malay women) are subject to negative stereotyping by the Malay Muslim population, as well as by the Indian Hindu minority. Stigmatized by way of a derogatory name, *Mamak*, they are viewed by both segments as shrewd traders whose main motivation for adopting the religion of the majority is to derive economic, social and political benefits. The fact that most converts fail to surrender particular cultural traits such as language helps fuel the prejudicial belief that their religious conversion is not genuine.<sup>30</sup> The effect of such stereotyping has not been studied, but a keen observer of the Malaysian way of life will not fail to notice that the continued existence and use of such stereotyping creates pressures on the affected group to dispel or otherwise deal with such prejudices.

Attempts to use Mahathir's mixed parentage in the negative sense by his opponents were especially visible when the battle stakes were high. During his

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<sup>29</sup> A cross-cultural study conducted by the Department of National Unity, Prime Minister's Department lists out scores of ethnic, religious and cultural stereotypes (some positive, but mostly negative in nature) that are commonly held by one ethnic group against the other. The study lists prejudices, lack of awareness and education as factors, but leaves out the view that in an environment where ethnicity is political, publicizing the ethnic purity or otherwise of individuals who take part in the political process has consequences. Department of National Unity, *National Unity and Education*, Unpublished report, 1971.

<sup>30</sup> Mahathir has refuted such a view. In the *Malay Dilemma*, he writes positively of the influence of Islam on Malays. He saw the spread of Islam as the victory of a more progressive religion over animistic and Hinduistic influences, and the interreligious marriages between Arab and Indian Muslims with town Malays as according the latter with "adaptation to new ways" and "sophistication." See *The Malay Dilemma*, pp 22, 26, 28.

early political life, he was labeled a “malay-firster” and an *ultra*, terms which carried the insinuation that Mahathir was expected to go overboard in proving his “Malay-ness” at the expense of the other ethnic groups.<sup>31</sup> During Mahathir’s 1992 conflict with the Malay rulers, a lack of understanding and appreciation of “Malay decorum” was alleged against him<sup>32</sup> - suggesting that he wasn’t Malay enough. Similar racial insinuations were made against the premier during the 1993 Malaysia-Australia bilateral spat.<sup>33</sup> During the Anwar Ibrahim debacle, Mahathir’s worst political crisis, sections of the premier’s opponents dropped all niceties to refer to him derogatively as “*mamak*.”<sup>34</sup>

Given the above state of affairs, one can surmise that the downplaying of Mahathir’s mixed parentage by some and its highlighting by others points to the

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<sup>31</sup> Victor Morais quotes Mahathir as telling him: “ I have been misinterpreted and misunderstood even at the time when I was labeled an ultra. I feel that the labeling was a political gimmick.... All I was saying was that the Malays should have a fair share in the country’s wealth, no more than that.” See *Mahathir*, pp.29. Interestingly, Musa Hitam, Mahathir’s first deputy, and who had a Chinese mother had been given the same label by his critics.

<sup>32</sup> Hari Singh, “Umno Leaders and Malay Rulers,” in *Pacific Affairs*, Vo. 68 No. 2, 1995 writes: “In fact the rulers have derided Mahathir’s mixed-ethnic background, referring to him as a *mamak*, rather than a true Malay.” Pp 198.

<sup>33</sup> See the Australian based *Financial Review* of November 19, 1993

<sup>34</sup> Anwar’s supporters used the Internet to propagate their views, which were shut out of the mainstream media in this high stakes power struggle. Khoo Boo Teik, “Unfinished Crises: Malaysian Politics in 1999” in *South East Asian Affairs 2000* provides a survey of the scores of websites that sprung up in the aftermath of the Anwar affair. See pp. 171. A google search for the term “Mamak Mahathir” produced some 950 articles posted on a variety of *Reformasi* websites from 1997 till 2000. See <http://www.malaysia.net/lists/sangkancil/1999-10/msg00082.html>. Website visited on May 17<sup>th</sup>, 2004. This is not the first time that the Premier has been described in such terms. The Australian based *Financial Review* of November 19, 1993 used the word during the Malaysian-Australian problems of 1993.

relevance of such a factor in the Malaysian political environment. Its impact on Mahathir's political outlook is difficult to ascertain, yet one is inclined to associate Mahathir's early and extreme form of Malay nationalism and "ultra" ideology as a need or desire to compensate for his lack of a pure Malay background.<sup>35</sup>

### **2.3.3 Non-political Upbringing and Local Education**

The absence of political mentorship at home meant that Mahathir had to discover and nurture his own political inclinations, the foundations for which were probably laid in his university days at Singapore.<sup>36</sup>

Mahathir intended to make the preferred profession of local politicians – a law degree from the United Kingdom – his career choice. Studying law in England was the ultimate aim of parents who sent their children to English medium schools. But Mahathir was denied a government scholarship and had to join seven other Malay students instead at the Medical College in Singapore to study medicine, only four of whom eventually graduated. One of those who

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<sup>35</sup> A senior officer (retired) at the Department of National Unity, a body that has studied such issues agrees. Personal correspondence dated 28<sup>th</sup> February 2005.

<sup>36</sup> Contrast this with the highly political families Mahathir's predecessors were nurtured in. Tunku was a member of the Kedah royal household, Hussein Onn, the son of Jaafar Onn, the founder of UMNO, and Razak's father was an UMNO activist.

passed was his future bride who admits she could not have done so without Mahathir's Iskandar-style tough and extensive tutoring.<sup>37</sup>

Not being in Britain during these formative years probably had considerable impact on Mahathir's political beliefs. He did not have the benefit of being able to witness first hand the land, culture and lifestyles of his country's colonial power. The British system did not have the opportunity to influence Mahathir in the way in its education combined with years of lifestyle as students in England may have influenced the belief systems of other leaders of their colonies. In fact, by denying Mahathir a scholarship to pursue law in Britain, the exact opposite kind of influence may have been impacted. It may be more than co-incidental that Mahathir's first major foreign policy crisis as prime minister was connected to the United Kingdom (Buy British Last and the Commonwealth Policy) and first major domestic crisis to Law (the Judicial Crisis).

Since Mahathir had both the qualifications and the interest in law and things connected to the legal profession (writing and debating), one is led to the conclusion that the denial of his scholarship had to do with the British

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<sup>37</sup> Malaysian first lady, Siti Hasmah acknowledges Mahathir's help. "Medicine is not especially for an average person like me. For every rung of the ladder I climbed, I dropped back a bit..." She says of Mahathir's tutoring style: "We would start out nicely. Then he would become impatient with my slowness." Siti Hasmah, having spent two years in referrals, graduated later than the above average Mahathir, who himself had to re-sit his board examination once. See Victor Morais, *Mahathir*, pp. 69 and Robin Adshead, *Mahathir*, pp.40.



assessment of his lack of potential for future political leadership – a point that could not have missed Mahathir. Mahathir's plebian background, his lack of "pure Malay" blood, Iskandar's a-political inclinations, and perhaps Mahathir's own lack of outward enthusiasm for things political may have influenced the denial of the scholarship. In any case, Mahathir's political mind was to nurture in an environment that had an overwhelmingly local influence.

## 2.4 POLITICAL IDEOLOGY

Mahathir's activities in college were a continuation of his high school favorites. He participated in forums and debates, became the editor of the college magazine, and was elected president of the College's Muslim Society. He soon started contributing articles to the *Straits Times* under the pseudonym "C.H.E Det."<sup>38</sup> These articles began appearing towards the end of 1948 (Mahathir's third year in college), became regular in 1949 and tapered off in 1950. The subject matter of the articles dealt with his observation of Malay customs, his take on Malay issues and problems, and views on political issues such as nationality and the royalty.

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<sup>38</sup> Adsheed, *Mahathir*, pp. 26 says Che Det was Mahathir's pet name. Khoo Boo Teik, *Paradoxes*, pp. 81 suggests the capitalization of the initials was intended to provide for a European-like sounding name aimed at concealing the fact that the articles were being written by a Malay.

These articles provide insights into the developing political mind of Mahathir. He wondered aloud on the survival abilities of Malay customs in light of modern influences,<sup>39</sup> lamented wastage during traditional Malay weddings given the high divorce rates, and commended the move to lift bans of marriages between royal ladies and commoners, arguing that its only purpose was to preserve the myth of royal blood.<sup>40</sup>

He articulated vital Malay interests forcefully. He advocated a university entrance quota for the Malays simply because they were underrepresented in English medium schools and had low average intelligence quotients.<sup>41</sup> He called on Malay parents to send their children, especially girls, to English medium schools, to avoid being left far behind the Chinese and Indians in education.<sup>42</sup> He argued that the backwardness of the Malays had to do with the plight of its padi farmers since rice farming was the main vocation of the Malays.<sup>43</sup> He even identified himself with Malays in southern Siam struggling for their rights and

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<sup>39</sup> C.H.E Det article, Ronggeng is Popular, *Straits Times*, January 9, 1949.

<sup>40</sup> C.H.E Det article, Changing Malay Marriage Customs, *Straits Times*, November 20, 1949.

<sup>41</sup> C.H.E Det article, Malay Progress and the University, *Straits Times*, November 27, 1949.

<sup>42</sup> C.H.E Det article, Malays and Higher Education, *Straits Times*, September 26, 1948.

<sup>43</sup> C.H.E. Det article, Malay Padi Planters Need Help, *Straits Times*, October 30, 1949.

suggested that the solution may be for them to unite with their brethren in Malaya.<sup>44</sup>

His essays on politics displayed nationalistic streaks that betrayed his pre-occupation with Malay concerns rather than post-independence Malaya as a whole. He asserted hereditary rights for Malays, opposed equal citizenship, criticized UMNO chief Dato Onn Jaafar's attempts to open the party to all citizens, and supported Malay land Reservation Laws.<sup>45</sup>

The emerging political world of Mahathir was very much a Malay world. A World War, Japanese occupation, British Colonialism, student life in predominantly Chinese Singapore, and a medical education with all its concerns for mankind as a whole failed to widen it noticeably.

Upon graduation in 1953, Mahathir wrote to the authorities asking to be posted where he felt most comfortable – his home state of Kedah. Here he served the government for four years. He then opened his private medical clinic – a move that helped launch him as a parliamentarian in 1964, given that his clinic became a community service center of sorts for his electorate. His four-year term saw him focus on Malay issues, speak out against Tunku's gentility as well

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<sup>44</sup> C.H.E Det article, Malays in Southern Siam Struggle On, *Straits Times*, January 8, 1950.

<sup>45</sup> C.H.E Det article, New Thoughts on Nationality, *Straits Times*, April 9, 1950.

as the premier's caution and reluctance to take drastic action. All these earned Mahathir the reputation of a "Malay Ultra." In the 1969 elections he was amongst the many ruling party's candidates that lost their seats. He blamed his defeat on Chinese voters and expressed his anger openly.<sup>46</sup> He penned a caustic letter in which he diagnosed the causes of the government's defeat as having its roots in Malay economic imbalances viz a viz the other races and bitterly attacked Prime Minister Tunku.<sup>47</sup> Mahathir's inflammatory letter was widely circulated in Kampung Baru, a Malay enclave, where the bloody aftermath of the elections – generally known as the May 13th incident – erupted<sup>48</sup>.

Tunku's retaliation was severe. He declared that Mahathir's letter had instigated anti-government protests, ordered the police to investigate the writer and made it known that Mahathir was amongst a group of "extremists" out to

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<sup>46</sup> Mahathir's most vocal call was for the MCA to be kicked out of the Alliance government because the party leaders had failed to deliver the Chinese vote to the ruling coalition. Zainuddin, *The Other side of Mahathir*, pp 18.

<sup>47</sup> Among other things, Mahathir alleged that the Tunku was gambling with his Chinese friends on the height of the May 13 racial riots. Zainuddin, *The Other Side*, pp.22.

<sup>48</sup> Zainuddin, *Ibid*, pp 22, writing from personal experience says the letter was widely circulated amongst gatherings of young people at various places. "... Mahathir's letter became a much sought after object.. Mahathir's name rose with the angry flames that lit the night sky over Kuala Lumpur." See pp. 23.

seize control of the nation.<sup>49</sup> The UMNO supreme council banished Mahathir from all party posts by a majority vote three months later.

Mahathir was in exile. His house ransacked by Inland Revenue Officers looking for an excuse to harass him, deserted by friends and regarded by people as dangerous to be seen with, a psychologically ravaged Mahathir waited for arrest and imprisonment. When this did not happen<sup>50</sup> Mahathir went about preparing the groundwork for returning to active politics, which included a return to medical practice, flirting with the opposition parties and working with supporters inside his former party who wanted him back in the fold. Most importantly, however, Mahathir decided to lay bare his streak of Malay nationalism. Writing in strong language and touching on controversial and sensitive subjects, Mahathir penned, this time without the anonymity of C.H.E. Det, a social Darwinist treatise titled *The Malay Dilemma*.<sup>51</sup> It was a window to his

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<sup>49</sup> The government banned Mahathir's letter. Anyone found to be in possession of it was liable to a year's imprisonment or a fine of \$1,000 or both. Anyone found guilty of publishing, printing or distributing it was liable for a prison term of 3 years or a fine of \$2,000 or both. See *Ibid*, pp.28 and *Utusan Malaysia* 20<sup>th</sup> July 1969.

<sup>50</sup> In an interview with Zainuddin, Mahathir said he came to know later on that an arrest order was actually issued, but that it did not receive the consent of the deputy prime minister Tun Razak – the man who sympathized with Mahathir and would eventually, as Malaysia's second PM, be pivotal to Mahathir's re-entry into UMNO politics. See *Ibid*, pp 30.

<sup>51</sup> Mahathir, *The Malay Dilemma*. Published in Singapore in 1970, it remained banned by the Malaysian authorities till the day Mahathir became prime minister. The ban however was not effective in keeping its contents out of public knowledge. The proof of this is the earning of his fame and notoriety as a true Malay nationalist and Malay extremist respectively amongst the different sections of Malaysian society. Despite its ban, copies of the book were available to the

political soul in the sense that it provided Mahathir's version of what was wrong with the Malays, and what ought to be done about it via state intervention.<sup>52</sup>

In laying out the Malay problem, Mahathir articulated their fears of being swamped by far too many non-Malay citizens.<sup>53</sup> He argued that the Malays were a "definitive people"<sup>54</sup> and rejected non-Malay claims to political, linguistic and cultural parity with the Malays.

"I contend that the Malays are the original or indigenous people of Malaya and the only people who can claim Malaya as their one and only country. This confers on the Malays certain inalienable rights over the forms and obligations of citizenship which can be imposed on citizens of non-indigenous origin."

With such ideas acting as his canvas, Mahathir painted a picture of economic backwardness of the Malays, contrasting it with the fact that "ninety percent of (the nation's) wealth was in the hands of the Chinese."<sup>55</sup>

Mahathir's diagnosis of Malay ills had internal and external causes.

Internally, the Malays were weak due to hereditary factors, which were caused

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interested reader. Robin Adshead, *op.cit.* pp. 170 writes that Mahathir himself gave a copy of the book to the then University of Malaya student leader, Anwar Ibrahim.

<sup>52</sup> Though numerous analyses of *The Malay Dilemma* have been written, Khoo Boo Teik, *Paradoxes* provides the most extensive and wholesome examination. , Chapter 2.

<sup>53</sup> Mahathir, *The Malay Dilemma*, pp 31.

<sup>54</sup> *Ibid*, pp 152.

<sup>55</sup> *Ibid*, pp. 51 and 46-7.

by the "absence of inter-racial marriages, the habit of family in-breeding as symbolized by the frequency of first cousin marriages, Malay abhorrence of celibacy, early marriages, and poor upbringing."<sup>56</sup> Externally, Mahathir argued, the Chinese and the government caused these ills jointly. The Chinese through their "monopoly," "economic hegemony," and "total domination of the economy,"<sup>57</sup> and the government for not acting to rectify it. Mahathir contended that the Malays and Chinese were engaged in an unequal competition.

"The Malays, whose own hereditary and environmental influence had been so debilitating, could do nothing but retreat before the onslaught of the Chinese immigrants."<sup>58</sup>

In pointing out the government's share of the blame, Mahathir provided readers with his analysis of the May 13 disturbances.

"In the first place, the government started off on the wrong premise... It believed that the Chinese were only interested in business and acquisition of wealth and that the Malays wished only to become government servants. This ridiculous assumption led to policies that undermined whatever superficial understanding there was between Malays and non-Malays."<sup>59</sup>

Khoo Boo Teik provides a succinct interpretation of Mahathir's analysis:

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<sup>56</sup> *Ibid*, pp. 29

<sup>57</sup> *Ibid*, pp 56 and 61.

<sup>58</sup> *Ibid*, pp. 25.

<sup>59</sup> *Ibid*, pp. 15.

“ The *Malay Dilemma* dismissed one of the commonly assumed achievements of the Alliance (government) - the stable management of Malaysia’s plural society on the ‘separatist formula’ of ‘Malays in politics,’ and ‘Chinese in economics. As such the book’s post mortem on May 13 was also an ideological justification for scuttling the ‘Alliance Contract’ and dismantling the political economy which it underwrote.”<sup>60</sup>

Mahathir’s diagnosis included a prescription. It involved active government actions promulgating a favored position, privileges, and preferential treatments for the definitive people, and plans to urbanize the Malays.<sup>61</sup> He defended and justified constitutional provisions for Malay land reserve, government scholarships for Malay students, and quotas for Malay employment in the civil service.<sup>62</sup>

The *Malay Dilemma* took Mahathir’s political ideology out of the C.H.E Det closet into the open, and others who shared it, in particular young Malays, some of who walked the corridors of political power, rallied around him.

The move to bring Mahathir back into UMNO’s fold was led by UMNO youth leader and party vice president Harun Idris, who, riding high amongst Malays on his popularity for his role in the May 13 incident,<sup>63</sup> himself had prime

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<sup>60</sup> Khoo Boo Teik, *Paradoxes*, pp 26.

<sup>61</sup> *Ibid*, pp. 43, 46, 47, and 105

<sup>62</sup> *Ibid*, pp 69-72, 73-76, 76-78.

<sup>63</sup> Harun, then UMNO Chief Minister of Selangor organized a mass demonstration on May 13. It has been argued that in doing so he deliberately sought to ferment communal violence in order to



ministerial ambitions.<sup>64</sup> The party Supreme Council, split between “old guard” consisting of Tunku loyalists<sup>65</sup> and younger members, voted to re-admit Mahathir as party member after he wrote to the council president that he still subscribed to UMNO’s cause and policies.<sup>66</sup>

Within eight years of his re-admission, Mahathir climbed the rungs to occupy the top posts within UMNO and the nation. Months after his return, he was appointed by Razak to Parliament’s Upper Chamber. Two years later he returned to the Lower Chamber through his old Parliamentary constituency and was appointed a Cabinet Minister. He held the portfolio of education – an important post because it allowed him to mobilize teachers – the largest group of UMNO members then. In 1975 at the elections for party posts, he defeated, and sent into political oblivion, the man who engineered his return. He was now one of UMNO’s three vice presidents – the pool that provides the deputy prime

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discredit the Tunku’s moderate approach. Others have argued that he simply lost control of the huge crowd. See William Case, *Comparative Malaysian Leadership*, in *Asian Survey*, Vol X, No. 5, May 1991, pp 461. Harun’s reputation stayed with him for good. Three decades after May 13, no longer an UMNO member and contesting on an anti-Mahathir platform, Harun lost his bid for a parliamentary seat in an urban Chinese-majority, opposition-controlled constituency, presumably because the Chinese voters had not gotten over Harun’s 30 year old reputation as being responsible for the riots.

<sup>64</sup> Zainuddin credits others including Aziz Shamsuddin. *Mahathir*, pp. 34. Zainuddin argues that Harun brought Mahathir back to strengthen his position viz-a-viz Razak and to further capitalize on his post-13 May popularity.

<sup>65</sup> Syed Jaafar Albar led opposition to Mahathir. An open rift developed between the two men that ended upon the exit from active politics of Albar. *Ibid.*

<sup>66</sup> *Ibid*, pp 35.

minister's post – albeit with the lowest number of votes. Razak's sudden death saw Hussein Onn become premier, and he picked as his deputy Mahathir over the other two vice presidents – Ghafar Baba and Razaleigh, justifying his choice on the basis of Mahathir's tertiary education and seniority. Hussein bowed out six years later and in July 1981 Mahathir occupied the two most important political posts in the country - UMNO president and prime minister.

As prime minister, Mahathir lifted the ban on *The Malay Dilemma* "to enable Malaysians to know what their prime minister thinks." He revealed that the Razak administration had used his book as the basis for reshaping the nation's economy,<sup>67</sup> but was aware of the non-acceptance of some of his views amongst some sections of society. He was aware that as prime minister he needed a broader appeal than the type he sought when he wrote the book. "If they think that the ideas are good, then I can win the election, but if they don't then I may lose and not be the prime minister."<sup>68</sup> But he was also aware that it was the *Dilemma's* appeal within his party that propelled him. His distancing or modification, if any, required skill, time and doublespeak. "I have not revised

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<sup>67</sup> Victor Morais, *Mahathir*, pp145.

<sup>68</sup> *Ibid*,

any of my views," he told an Indonesian journalist.<sup>69</sup> A columnist of a local English newspaper was told something else: "Well, that book was written in the sixties...the situation was quite different and there were many things I said that were valid then."<sup>70</sup>

The evolution of Mahathir's political ideology after he became head of state was complex yet obvious. Khoo suggests that it involved an expansion of his version of Malay nationalism into a Malaysian nationalism.<sup>71</sup> Yet this expansion had, at its core elements the concerns of the Malay race. His evolving ideology involved the expansion of the nature of the Malay problem and given the Islamic resurgence of the times, he turned his attention now to this new element – Islam, in place of the historical and genetic ones emphasized earlier. It was now the Malay Islamic dilemma that needed prescriptions, prognosis and government action in addition to social and economic engineering that the Malay race required. Yet his concern was not so much Islam per se, but the Islam of the Malays. His changing ideology also diagnosed an additional root of the Malay and Malaysian problem – the West and its influences. The inclusion of the West into the equation of Mahathir's evolving political ideology required the inclusion

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<sup>69</sup> *Ibid*, pp. 145.

<sup>70</sup> Tan Chee Koon, *Without Fear or Favour*, Singapore: Eastern Universities Press, 1984, pp. 78

<sup>71</sup> Khoo Boo Teik, *Paradoxes of Mahathirism*, Chapters 2 and 3.

of international issues. He espoused a "Third World dilemma." Yet his concern was not the developing world per se, but only as much as it mattered to the Malay and Malaysian world. One way to describe the metamorphosis of the ideology is that the core remained very much the same, while the periphery was expanded, collapsed, modified or retained depending on how it affected the core.

Most significantly, now that Mahathir was in a position to take action, he could not continue to just diagnose the problem, be an ideologue, criticize the government, and deploy polemics. His ideology now required the language of policy and action. In other words, the doctor's diagnosis had to move to the prescription stage. Prior to becoming premier, he had been part of the government for a decade and by his own admission, *The Malay Dilemma* had been the basis of government policy. The dilemma thus could not logically continue to exist in its original form. Mahathir thus transformed the "dilemma" into a "challenge," as elucidated in his next major book *The Challenge*. He justifies this transformation in the introduction:

"The Malays have emerged from a long period of backwardness only to be pulled in different directions by conflicting forces, some of which seek to undo whatever progress has been made and plunge the entire community into the Dark Ages."<sup>72</sup>

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<sup>72</sup> Mahathir, *The Challenge*, Introduction.

The emergence of the Malays from long period of darkness can only mean that the dilemma as he put it two decades ago was resolved. However, there were new dimensions of it and Islam was the one that concerned him. He made this clear in the introduction.

“One of the saddest ironies of recent times is that Islam, the faith that once made its followers progressive and powerful, is being invoked to promote retrogression, which will bring in its wake weakness and eventual collapse. A force of enlightenment, it is being turned into a rationale for narrow-mindedness; an inspiration toward unity, it is being twisted into an instrument of division and destruction.”<sup>73</sup>

Mahathir’s ideology had evolved to suggest that history, genetics and the Chinese were not longer holding the Malays down. It was time to pay attention to Islam. Hence admonitions such as “the Malays will have to shape their own destiny,” and “God will not change the face of a nation unless that nation itself strives for improvement.”<sup>74</sup> Mahathir was now saying that if the Malays lagged in education, wealth accumulation and development, they had to look within their spiritual realms for the causes. It was the wrong kind of Islam that

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<sup>73</sup> *Ibid.*

<sup>74</sup> Both quotes from Mahathir, *The Challenge*, pp. 3

prevented the Malays from obtaining a western secular education, kept them poor, and gave them “a thousand and one problems.”<sup>75</sup>

*The Challenge* also introduces an external source of Malay ills – the West and its negative influences. “What the West does today the East will do tomorrow and the Malays the day after.”<sup>76</sup> More significantly, targeting the West allowed Mahathir’s nationalism to be elevated from ethnic to national and from national to global; from Malay to Malaysian, and from Malaysian to the developing world. In the chapter titled “West and East,” western ills are pitted against developing states. Using the 1973 Arab oil embargo as an example, Mahathir advocates standing up to the West collectively, “(f)rom this incident, it is clear that co-operation amongst Eastern nations will neutralize or nullify the joint action taken by the West.”<sup>77</sup> By the end of his first decade as premier, Mahathir had succeeded in being widely acknowledged as a spokesman of the developing world,<sup>78</sup> and championing the causes of the Third World and Islamic solidarity became a major part of his foreign policy rhetoric.

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<sup>75</sup> *Ibid*, pp 114, 16, and 1.

<sup>76</sup> *Ibid*, pp.44

<sup>77</sup> Mahathir, *The Challenge*, pp. 49

<sup>78</sup> See for instance *The Far Eastern Economic Review*, 20 Aug 1992. Mahathir is the subject of the issue’s cover story captioned: “Malaysia’s Mahathir: New Voice of the Third World.” The story compares Mahathir with other Third World spokespersons: “Many would agree that the prime minister of Malaysia is the heir apparent to an earlier generation of Third World Spokesmen who

The evolution of Mahathir's political ideology reached critical mass as he continued to preside over the nation into his second decade of premiership. The fact that Mahathir had come to terms, almost completely with his evolved ideology is observable from his four major books published in the nineties.<sup>79</sup> By now, blaming the Chinese for Malay ills could even be critiqued. He writes in *The Way Forward*, his next major ideological treatise after *The Challenge*, about Malay dissatisfaction during the Tunku days:

“ Not seeing any improvement, a narrow Malay nationalism, or more correctly racialism, began to spread, especially amongst the younger Malays. They invariably blamed the Chinese for their poverty...<sup>80</sup>”

Malay nationalism was being re-written as narrow and racist and blaming the Chinese was recast as less than accurate. That the evolution was complete is exposed from the way in which he handled two devastating economic and financial crises. During the first crisis, Mahathir ordered the NEP – the epitome of Malay nationalism - to be held in abeyance. In the second crisis, Mahathir's targets were all external. He blamed the West and its agents for the 1997 Asian

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challenged Western leaders on everything from economics to morality,” yet argues that Mahathir is different because “he remains a firm believer in free markets and foreign investment.”

<sup>79</sup> *The Pacific Rim in the 21<sup>st</sup> Century, Alliances and Collaborations in the Asia Pacific*, (1995), *The Way Forward*, (1998), *Mahathir Mohamed on the Multimedia Super Corridor*, (1998), and *The Challenges of Turmoil*, (1998).

<sup>80</sup> Mahathir, *The Way Forward*, pp. 5.

financial crisis, refused to go to the International Monetary Fund for assistance<sup>81</sup> and withdrew the Ringgit from international financial markets. Despite all the setbacks of the crisis, Mahathir declared that Malaysia was on its way to becoming a fully developed nation, albeit in its own way.

## 2.5 LEADERSHIP STYLE AND TRAITS.

The Mahathir era is one of phenomenal economic growth and structural development side-by-side financial crises. It is also characterized as populism side-by-side authoritarianism, concentration of power with the executive and weakening of other branches of government. It was an era whereby the pendulum constantly swung between the foci of regime interests and national concerns.

As prime minister, Mahathir inherited a political, economic and multi-racial social system that had its roots in the colonial history of the nation. British style parliamentary elections were held regularly, their outcomes help formed legitimate governments, opposition parties participated actively in the process,

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<sup>81</sup> Mahathir provided the broad justification for not going to the IMF in his book on the crisis. " We were not willing to surrender the management of our economy to the IMF... Malaysia needed to have control over its economy. Malaysia's economic focus was not only on GDP growth, but also the distributive aspects of growth...Malaysia was involved in a very complex socioeconomic restructuring. . Recovering would not be enough for Malaysia. Recovery must be accompanied by equitable distribution. ...Failure to do so could result in ...May 1969, See Mahathir, *The Malaysian Currency Crisis*, pp. 20.



and freedoms of speech, religion and assembly existed. The regime was stable, leadership successions smooth, there were no coups or uprisings, and the various branches of government enjoyed freedoms of checks and balances. But there were serious caveats. The electoral system had been constructed to perpetuate the hegemony of a Malay-dominated regime, the criminal system allowed for detention without trial, the government used its majority to amend the constitution frequently, affirmative action in favor of Malays was not up for open discussion – not even in Parliament and the media and opposition parties suffered curtailments of their freedoms serious enough to hinder their effectiveness.

Observers had called the Malaysian model consociational democracy,<sup>82</sup> partly consociational,<sup>83</sup> democracy without consensus,<sup>84</sup> or quasi-democracy.<sup>85</sup> Different though these characterizations may be, the common thread lay in the recognition that national leadership and maintenance of the regime were the

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<sup>82</sup> Gordon P Means, *Malaysian Politics*, London: Hodden and Stroughton, Ltd, 1976.

<sup>83</sup> Arend Lijphart, *Democracy in Plural Societies: A Comparative Exploration*, New Haven: Yale University, 1977. On pp 153-57 Lijphart argues that Malaysia could not be regarded as fully consociational due to increasing political discrimination in favor of the Malays.

<sup>84</sup> Karl Von Vorvys, *Democracy Without Consensus, Communalism and Political Stability in Malaysia*, Princeton: Princeton University Press. 1975 pp. 12.

<sup>85</sup> R.S Milne and Dianne K Mauzy, *Politics and Government in Malaysia*, Singapore: Federal Publications, 1978.

most crucial elements of the politics and economics of the divided society of Malaysia.

For the purposes of this section, it is argued that leadership traits of the Mahathir regime are best observable through an account of the regime's national achievements as well as in the way it responded to challenges. In Mahathir's two-decade rule, the regime achieved impressive GDP growth, ushered the nation into an NIC status, and raised the country's international profile considerably. At the same time Mahathir faced unprecedented challenges to his leadership from within his own party, loyalists and cabinet; had to deal with possible removal by the judiciary; encountered a massive confrontation with the monarchs; endured the resignation, defeat and sacking, respectively of three heirs-apparent; faced popular Malay-revolt and international condemnation; and steered the nation through two devastating economic crises along un-orthodox routes. None of Mahathir's pre-decessors had faced such severe challenges. It is thus in the analysis of Mahathir's achievements and manner of responding to the above challenges that leadership traits are distillable in some coherent sort of way.

Malaysia's economic progress under Mahathir was undoubtedly impressive.<sup>86</sup> The nation's economy was transformed from predominantly agrarian to manufacturing,<sup>87</sup> its GDP occasionally recorded two-digit growth,<sup>88</sup> privatization, heavy industrialization and FDI were fairly successfully pursued, its external reserves remained high,<sup>89</sup> inflation low, foreign debt was kept manageable<sup>90</sup> and the government frequently launched impressive billion dollar infrastructure projects. By the end of Mahathir's 17<sup>th</sup> year in power, the WTO recognized Malaysia as the world's 18<sup>th</sup> biggest exporting and 17<sup>th</sup> biggest importing nation.<sup>91</sup> Mahathir's objective was to turn his country into a fully developed one by 2020. Given the long term and rather uncertain nature of such a goal, the need to show results required the adoption of an economic leadership

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<sup>86</sup> The September 1993 World Bank report "The East Asian Miracle: Economic Growth and Public Policy" listed Malaysia as among the eight Asian economies that achieved the highest growth rates in the world between 1965 and 1990.

<sup>87</sup> Agriculture's share of Malaysian GDP dropped from 23% when Mahathir took over as premier to 14 % in 15 years. At the same time the manufacturing sector's share rose from 20% to 33% within the corresponding period. See K.S. Jomo, *Southeast Asia's Misunderstood Miracle*, Colorado: Westview Press, 1997, pp 91

<sup>88</sup> In 1981 the GDP growth rate for Malaysia was 4 % per annum. In 1995, after 15 years of Mahathir rule, it was 10.1 percent. For a decade prior to that it grew at 8.5 % per annum. See K.S. Jomo, *Tigers in Trouble*, London: Zed Books, 1998 pp 198, and Mahathir, *The Malaysian Currency Crisis*, pp 10

<sup>89</sup> They were kept at a level capable of financing four months of retained imports. See Mahathir, *The Currency Crisis*, pp 15.

<sup>90</sup> The external debt was at 40 percent of the Gross National Product, *Ibid*,

<sup>91</sup> WTO report as referred to in Mahathir, *The Malaysian Currency Crisis*, pp. 10.

style that focused on winning over the nation psychologically. Such a need constantly sought to narrow the space for dissent, concentrated decision making within his offices, showed impatience with established economic institutions and relied substantially on foreign capital and expertise. Mega projects which carried the premier's personal mark, farmed out mainly to Malay entrepreneurs loyal to the premier's party and ideology in the name of privatization but inevitably feeding into the phenomenon of rent-seeking and carried out outside of established normal routines and procedures such as open bidding became the trade mark of the regime's style. The macro economic policy of heavy industrialization and grand projects such as the North-South Highway, *Dayabumi*, UMNO headquarters, National Car Project, Steel Manufacturing, New Government Complex (Putrajaya), KL Towers, Bakun Hydro-electric Dam, Penang Bridge, Silicon Valley, KLIA, Second Causeway to Singapore, Formula One Race Track – were thus very much in line with the economic and development paradigm of Mahathir. The high visibility and grandiose nature of the projects instilled a psychological sense of rapid technological and economic progress. They further pretended to put Malaysia on par with the developed world and helped silence domestic critics. Those who criticized these projects as wasteful, non-profitable, having negative environmental impact or questioned

the manner in which they were planned and implemented were often identified with envious foreigners who did not want the country to become fully developed. The contracts were awarded mostly to handpicked regime-loyalists Malay entrepreneurs, (who through MFP-facilitated efforts, were able to form joint ventures with foreign companies) and bypassing any exercises of open tenders. Mahathir defended such practices as necessary.

“The privatization policy had resulted in catapulting a core of *Bumiputeras* or indigenous people into the realm of big business. Many of them were doing well. Over time, we were confident that more *Bumiputeras* to this level of business...The Malaysia government is avowedly business-friendly...A government, which is business friendly, cannot help but know all the members of the business community. We knew who was good and who was not. When bids were made for contracts or for the privatization of government entities, the government could not just look at the proposals without looking at the track records of the proposers. In any case, whatever the criteria, in the end only one bidder would win. Labeling anyone who won as a crony of the government placed the government in a no-win situation.”<sup>92</sup>

Accountability for these projects was removed from public scrutiny. In most cases, apart from the entrepreneurs, the government was the sole source of detailed information on matters such as costs, benefits, profits and losses. Keeping a tight lid on the real costs – monetary, social and political – of these grand projects and policies, and their rather unproductive nature, the regime

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<sup>92</sup> Mahathir, *The Malaysian Currency Crisis*, pp 13-14.

was often able to showcase finished products. It was during the Mahathir reign that Malaysia could bask in the pride of having, amongst others, the world's tallest structures, as being the only Southeast nation with a car production industry, and as having Asia's most modern airport and a steel industry comparable to Japan. On the books was a hydroelectric dam that would flood an area bigger in size than Singapore, and a silicon valley (the multi media super corridor) comparable to that of California, USA.

The economic leadership style of the regime, especially its "corporatist," "business friendly," "grandiose projects," and "local-foreign joint venture" elements had political consequences. The most serious consequence was factionalism within UMNO, which led to unprecedented challenges to Mahathir's position. Such factionalism had its roots in the growing phenomenon of money politics and was aggravated by the two economic crises that the nation endured during Mahathir's reign. Gomez and Jomo have argued that Mahathir's privatization policy was essentially a government patronage policy that helped take the phenomenon of money politics to unprecedented heights.<sup>93</sup> The

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<sup>93</sup> Edmund Terence Gomez and Jomo K.S., *Malaysia's Political Economy: Politics, Patronage and Profits*, Cambridge University Press, 1999, pp. 117-166.

monopoly of privatization benefits by Malay entrepreneurs loyal to Mahathir<sup>94</sup> alienated sections of the ruling party who rallied around various party leaders who in turn mounted challenges to oust Mahathir. The premier has acknowledged the phenomenon of money politics:

“Money politics is a big problem...More business people are getting into politics. Before, most of the leaders of UMNO were Malay schoolteachers and they didn’t have any money to spread around. Now we have successful businessmen going into politics.”<sup>95</sup>

In the political realm prominent traits of the Mahathir leadership include stability, centralization of power within the executive, and serious conflicts with other branches of government resulting in the declining independence and influence of the bureaucracy, legislature, judiciary and monarchy. The outcome was an increasingly authoritarian regime, mindful of the need for populism yet manifesting an ever-increasing disregard for democratic procedures and institutions that stood in its way. One may, in this regard refer to Mahathir’s political rule as a sophisticated “personal rule” in a very much looser sense than

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<sup>94</sup> Prominent entrepreneurs linked to UMNO leaders include Halim Saad, Tajuddin Ramli, Shamsudin Abu Hassan, Wan Azmi Wan Hamzah, Yahaya Ahmad, Ahmad Sebi Abu Bakar, Vincent Tan, T. Ananda Krishnan T.K. Lim, Ting Pek Khing. *Ibid*, pp 121.

<sup>95</sup> Mahathir in an interview with an Australian journalist. Quoted in Greg Sheridan, quoted in *Leaders of the new Asia-Pacific Tigers*, Australia: Allen and Unwin, 1997, pp 213

as used by Jackson and Rosberg.<sup>96</sup> It is personal in the sense that “institutional rule” increasingly weakened as political power was increasingly centralized in Mahathir’s hands. It is sophisticated in the sense that the centralization of power was not arbitrary.

The economic crisis of the mid-1980s became Mahathir’s first major political crisis. The extensive links between business and politics that had developed as a result of Mahathir’s privatization and heavy industrialization policies ensured the crisis was as political as it was economic. The recession severely curtailed the benefits that could be disbursed by the regime, leaving UMNO ranks deeply dissatisfied. Mahathir’s finance minister Tengku Razaleigh, a landed prince with extensive business empire of his own, and enjoying close ties with the Chinese business elite, teamed up with deputy premier, Musa Hitam to lead a major challenge to oust Mahathir from power. Razaleigh alleged that Mahathir had formed a kitchen cabinet which had centralized decision-making powers and that most government contracts and business opportunities were being distributed to members of this inner circle.<sup>97</sup> This happened in the backdrop of a court decision temporarily stopping the privatization of the multi-

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<sup>96</sup> Robert H Jackson and Carl G. Rosberg, *Personal Rule in Black Africa*.

<sup>97</sup> *The New Straits Times*, April 23, 1987.



billion Ringgit North-South Highway project. The court had ruled that since UEM, the company that was awarded the project had close links to UMNO; there was a conflict of interest. Musa - who had earlier resigned as the nation's number one due to Mahathir's authoritarian ways - Razaleigh, and about one half of Mahathir's cabinet including Defense Minister Abdullah Badawi and Foreign Minister Rais Yatim formed what was to become known as the Team B of UMNO as opposed to Mahathir's Team A. For the first time in the history of the nation, a prime minister and UMNO president was being challenged openly and decisively from within his party.<sup>98</sup>

In the historic yet ugly party elections of April 1987, Mahathir won by a hair thin majority but it was not the end of the challenge.<sup>99</sup> Razaleigh attributed his narrow defeat to grossly unethical strategies, namely the use of illegal party branches by Mahathir's team and backed a court action by twelve of his supporters to challenge the validity of Mahathir's victory.<sup>100</sup> Additionally, both

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<sup>98</sup> The informal UMNO game rules were collectively called the "Malay Way." These rules discouraged direct confrontation, and while candidates were free to contest for positions on the Supreme Council, for party vice-presidents, and even the deputy, the president's post was never contested. It had always been the party president's prerogative as to when he wanted to step down and to name his successor.

<sup>99</sup> Diane K Mauzy wrote that "the campaign was an expensive, dirty, angry, no hold-barred affair to win or buy the support of the 1,479 voting UMNO delegates." Mahathir won by a 43-vote margin. See "Malaysia in 1987: Decline of the Malay Way," in *Asian Survey*, 1988 pp.214.

<sup>100</sup> *Far Eastern Economic Review*, March 3, 1988.

sides decided to take the fight to the masses – in the form of massive rallies in Kuala Lumpur. Attempts by the rival factions to compete for Malay support by political undercutting, anti-Chinese rhetoric, and the fact that that Mahathir's rally was to be held in Kampung Baru – the epicenter of the May 13 riots - brought ethnic tensions to a boiling point.<sup>101</sup> In late October, Mahathir invoked preventive detention powers accorded to the executive under the ISA – arresting 106 opposition politicians, academics, middle ranking Team B politicians and shutting down, for the first time in 30 years of independence, privately owned media.<sup>102</sup> The result was a cessation of communal appeals and tensions and an improved stature for Mahathir, domestically. The latter effect prompted accusations that Mahathir engineered the episode, to which the premier responded publicly:

"It would be somewhat Machiavellian of me to design all these things, go to the brink and then pull back...Even though I consider myself a political genius, I don't think I am that much of a genius. The idea is quite fantastic."<sup>103</sup>

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<sup>101</sup> *Asiaweek*, November 1987 reported wide scale panic buying of foodstuff, a phenomenon widely viewed after 1969 as preliminary to dreaded communal bloodletting.

<sup>102</sup> Amongst newspapers that were shut down were *The Star*, Malaysia's number one English daily at that time, *Watan*, a Malay language weekly sympathetic to the opposition PAS, and a Chinese language daily *Sin Chew Jit Poh*. Amongst the things *The Star* had done to earn the ire of Mahathir were its a pro-Razaleigh stand and regular anti-Mahathir columns, in particular Malaysia's first premier Tunku Abdul Rahman's weekly column as well as one time opposition leader Dr Tan Chee Koon's regular column. Tunku had refused to be a member of the New UMNO's and accused Mahathir of turning Malaysia into a police state. All newspapers resumed conditional publication after 6 months - with new editorial and managerial teams.

<sup>103</sup> Interview with Mahathir as quoted in *The Asian Wall Street Journal*, November 9, 1987.

Mahathir's genius came into play three months later at the court hearing of Team B's suit, where it appeared that the court was about to accept Team B's claim of the presence of illegal branches and members in the party elections, and hence order new elections. Mahathir's attorney drew the court's attention to a statute under which an organization that possessed illegal branches was itself illegal. The Court agreed and ordered the disbanding of the party. Mahathir moved quickly to form a new party (New-UMNO), modified the party constitution to prevent challenges to the party president,<sup>104</sup> and re-registered its mass membership. Team B was denied membership, and the official assignee, as provided by law, took over the vast assets of the defunct UMNO – allowing Mahathir to reconstitute the assets, all of which were channeled to private businessmen via holding companies, apparently to ensure that Team B members could not make any claims on these corporate entities.<sup>105</sup>

Team B appealed the de-registration of the original UMNO to the Supreme Court. The appeal came up for hearing amidst ongoing disputes

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<sup>104</sup> KS Nathan, "Malaysia in 1988: The Politics of Survival," in *Asian Survey* 29, No. 2 (Feb 1989) pp 132 argues that the constitutional amendments had the effect of making ironclad, the UMNO tradition of not having challenges for top posts.

<sup>105</sup> Gomez and Jomo, *Malaysian Political Economy*, pp 122.

between Mahathir and the Malaysian judiciary – generally considered to be the most independent and distinguished within the developing commonwealth world. Citing a need to be seen as fair, the Lord President announced that a full bench of nine judges – instead of the usual three, would hear the appeal. It has been suggested that in doing so, the court thus was unable “to guarantee Mahathir the outcome he wanted.”<sup>106</sup> In the event the court found in favor of Team B, the original UMNO would be revived, and new elections would have to be held, in which Mahathir, as leader of the New-Umno would be barred from contesting.<sup>107</sup> But before the case could be heard, in May 1988, the Lord President Tun Salleh was sacked,<sup>108</sup> as were five other Supreme Court judges who had met dramatically for the purpose of reinstating him. The Malaysian Bar Council brought contempt proceedings against Salleh’s successor, causing the government to retaliate by evicting the council from its offices in the High Court building. A Supreme Court bench comprising temporary and junior judges

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<sup>106</sup> See William Case, *Elites and Regimes in Malaysia: Revisiting a Consociational Democracy*, Australia: Monash Asia Institute, 1996 for an argument along these lines, pp. 201-202.

<sup>107</sup> *Far Eastern Economic Review* reported in its 21<sup>st</sup> July 1988 issue that Mahathir had such a fear, pp. 13

<sup>108</sup> A vivid account of this controversial and highly publicized sackings is given by Salleh Abas and K Das in *May Day for Justice: The Lord President’s Version*, Kuala Lumpur: Magnus Books, 1989. Peter Alderidge William in *Judicial Misconduct*, KL: Pelanduk Publications, 1990, provides the government’s account Three of the five suspended judges were subsequently re-instated and the High Court judge who outlawed UMNO was elevated to the Supreme Court.

threw out Team B's appeal. By this time, Mahathir's victory over Team B was complete. The judiciary was immensely weakened<sup>109</sup> and it had a chilling trickle down effect on the rest of the nation's bureaucracy – an institution that did not enjoy Mahathir's confidence from the start.<sup>110</sup>

The 1990 general elections saw the ruling party lose control of two of 13 state assemblies for the first time since independence, and New-UMNO's parliamentary seats came down from 85 out of 86 to 71 out of 86, but Mahathir's coalition retained its two thirds majority, largely in part due to the end of the recession, which in turn was brought about by increased foreign investment and a rise in commodity export prices.

Mahathir tussled with the monarchy – the other branch of government that could afford some sort of check on the concentration of power with the executive – on two separate occasions. The first tussle, commonly called the “constitutional crisis of 1983” centered on the issue of royal assent and powers.

The constitution stipulated that no parliamentary bill could become law without

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<sup>109</sup> The Lawyers' Committee for Human Rights, in its report titled “Malaysia: Assault on the Judiciary,” New York, 1989, wrote: “In Malaysia one can no longer presume an independent judiciary in matters of political importance.”

<sup>110</sup> One of the first decisions by Mahathir upon assuming the prime minister ship was related to the bureaucracy. He ordered the installation of punch clocks that required even the most senior civil servants to record their arrival and departure time, (up till then such machines were used in factories) told all civil servants to declare their assets. Mahathir made the “nameless, faceless” civil servants wear nametags and replaced time-based promotions and perks with performance related bonuses. See Morais, *Mahathir* pp 86.

royal assent. In August of 1983, Mahathir proposed that a bill shall become law, "if for any reason whatsoever, the bill is not assented to within 15 days by the King." This bill further sought to transfer the power to declare a state of emergency from the King to the Executive, a move seen as seeking to entrench Mahathir's control over Malaysian politics. It has been argued that the motivating factor for such a bill was the Mahathir regime's view that the monarchy was a liability to the UMNO leadership's desire to centralize power.<sup>111</sup> The impending ascension to the throne of one of two "problematic" candidates – one a strong willed candidate who had openly declared his intentions vis-à-vis the Mahathir regime and the other with a turbulent temper who made no secret of his differences with the Mahathir regime - meant possible executive-monarchy conflict for the next decade, providing the urgency for such a move.<sup>112</sup>

The rulers promptly announced their refusal to provide their assent should the amendments be approved, threatening a constitutional crisis.

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<sup>111</sup> Hari Singh "Umno Leaders and Malay Rulers," in *Pacific Affairs*, Vo. 68 No. 2, 1995 in providing a detailed account of the relationship between UMNO and the monarchy has argued that during the Mahathir era "only the sultans remained as the effective counterweight to the exercise of executive power," Pp. 197.

<sup>112</sup> Sultan Idris Iskandar of Perak was expected to take the reigns as the nation's next king in April 1984. He had cast doubts on parliament's authority to legislate on the rulers' position and said in a speech that the people "have given us the power to be their protectors and it is up to the people if they want to take it back." The Sultan of Johor was next in line. Given that a king rules for 5 years by rotation, these two candidates were expected to prove challenging to the Mahathir regime for a decade. See Murugesu Pathmanaban, "Malaysia in 1984 – A Political and Economic Survey," in *Southeast Asian Affairs*, 1985, pp 213-214.

Mahathir conducted a nation-wide tour and spoke to large rallies justifying the proposed amendments. The tussle between the two institutions ended in favor of the executive by the passing of Mahathir's bill in January 1984. The rulers did manage to get the 15 day period extended to 30, after which time any unassented bill would go back to Parliament for a re-vote and automatically become law – with or without assent. As a compromise, the Mahathir regime let the powers to declare an emergency remain with the King.

Mahathir's problems with his nemesis Tengku Razaleigh provided yet another round of tussle with the monarchy in the earlier 1990s. During the 1990 general elections, the Sultan of the state of Kelantan, an uncle of Razaleigh, who had openly quarreled with UMNO, campaigned for his nephew's *Semangat* party.<sup>113</sup> Such royal support for the opposition given the loss of every parliamentary and state seat in Kelantan was difficult to tolerate. There arose a chorus of complaints from UMNO members followed by calls to amend the constitution to further restrict the powers of the monarchy. In February of 1992 the UMNO Supreme Council presented a memorandum of "code of conduct" to the rulers but many of them refused to sign it. This move was followed by a

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<sup>113</sup> See Andrew Harding, "Sovereigns Immune? The Malaysian Monarchy in Crisis," in *The Round Table* (1993) Vol. 327.

smear campaign in national newspapers disclosing exorbitant royal incomes, gaming debts, scandalous personal lives and crimes allegedly conducted by members of royal families on citizens – none of which had resulted in prosecution due to legal immunity enjoyed by the monarchs.<sup>114</sup> These stories, notwithstanding the laws of sedition that prevented their airing,<sup>115</sup> were often accompanied by photographs of grand palaces, holiday retreats, and royal hospital wards. In December, Mahathir's deputy moved successfully, in parliament, a constitutional amendment aimed at stripping the legal immunity of the monarchy. Given the outcome of the 1983 crisis, the King's assent was irrelevant, yet it was readily given, signifying the significantly eroded position of the institution.

Mahathir's next major challenge was brought about by the 1997 financial crisis. By 1996 it was becoming clear that the East Asian speculative boom funded by high levels of debt, mismanagement and crony capitalism was going

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<sup>114</sup> See of instance *New Straits Times*, 20<sup>th</sup> January 1993, front page. Amongst the more serious instances of royal misconduct exposed were the December 1992 physical assault by the Johor royal family on a sports coach, and the 1987 clubbing to death of a golf caddie by the Johor sultan, then the reigning king. The coach's assault led in December 1992 to a unanimously passed motion of censure in parliament against the Johor sultan. No legal or criminal action was taken given that the rulers enjoyed legal immunity. See Hari Singh, "UMNO Leaders and Malay Rulers," pp 201.

<sup>115</sup> The Constitutional (Amendment) Act 1971 made it seditious for anyone to question the "right, status, position, privilege, sovereignty or prerogative" of the Malay rulers. See Hari Singh "UMNO leaders and Malay Rulers", pp 201.



to affect Malaysia. This despite the fact that Malaysia's current account deficit in 1996 was 5 percent<sup>116</sup> – not excessive by any standards, and that Malaysia had relied more on FDI and less on debt to finance its projects (thus providing the country with greater insurance against capital flight by nervous investors). But Malaysia had problems: the banks were under-regulated and there were too many mega-projects going on simultaneously. Export growth slipped in the first half of 1997 to 2 percent, having risen more than 12 percent over the first half of 1996. In June 1997, Malaysia suffered its worst monthly current account deficit in 17 years. FDI fell in the first half of 1997 to 5.41 billion Ringgit, down from 17.06 billion in 1996.<sup>117</sup> It was clear that Malaysia was becoming vulnerable to the change in investor sentiment that was sweeping through the region. The Malaysian currency came under pressure beginning July 1997 and heavy buying by the central bank failed to stop the slide. The stock market plunged to an unprecedented low. Mahathir's response to the crisis ranged from attacks on rogue speculators, an attack on George Soros, calls for bans or severe curtailment of foreign exchange trading, and threats of punitive action against local share brokers – all of which generated immense criticism and had the effect of

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<sup>116</sup> Robert Garran, *Tigers Tamed: The End of the Asian Miracle*. Australia: Allen & Unwin, 1998, pp 107.

<sup>117</sup> *Ibid.*

worsening the situation. It seemed as if every comment by Mahathir led to yet another round of depreciation of the currency or the market, a development, which the premier himself noted:

“The currency traders saw themselves as powerful forces in the market and did not take kindly to criticisms of themselves. They claim to be doing a duty to discipline recalcitrant and erring governments. Every time they were criticized by the Prime Minister, they depressed the value of the Ringgit further. The condemnation of the Malaysian leadership became widespread. At one stage, other East Asian leaders were urged to condemn the Malaysian leader... They claim the Malaysian leader, with his loud mouth, was bringing down not only the value of the Ringgit but also the value of all East Asian currencies. Leaders of the tiger economies of East Asia therefore disassociated themselves from the views of the Malaysian leader. Malaysia was fast becoming a pariah nation to be avoided by everyone.”<sup>118</sup>

Substantively, the government announced the setting up of a \$60 billion fund<sup>119</sup> to bail out troubled share brokerage houses and resisted calling the IMF for help. Mahathir said there was “no way Malaysia would surrender its economy to the IMF even if that was the only way for the country to recover.”<sup>120</sup>

The crisis and Mahathir’s prescriptions soon became the focal point for a severe political crisis to which Mahathir’s deputy, heir apparent and finance minister Anwar Ibrahim was central. The charismatic and youthful Anwar had

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<sup>118</sup> Mahathir, *The Malaysian Currency Crisis*, pp.19.

<sup>119</sup> Edmund Terrence Gomez and Jomo K.S., *Malaysia’s Political Economy*, UK: Cambridge University Press, 1999.

<sup>120</sup> *Ibid*, pp. 20

been recruited personally by Mahathir from the opposition Islamists ranks to weaken them. But Anwar's meteoric rise and ambitions for political succession had caused a rift with his mentor – something that became apparent towards the mid 1990s. Despite constant denials of a rift by both and the frequent public proclamations of confidence and support for each other, the careful observer could find evidence of this rift in the wide range of divergent policy statements often made by both. Various causes of the rift have been identified: Anwar's ambitions, the aspirations of his supporters and the generation gap between him and Mahathir. No less important was the competition over the spoils of privatized projects between the two camps.<sup>121</sup> In the 1993 UMNO elections, Anwar, much to the displeasure of Mahathir, unseated Ghafar Baba from the number two post in the party and government while his supporters swept virtually all the powerful positions.<sup>122</sup> But Mahathir chose not to give them corresponding positions of power in the government.<sup>123</sup> To prevent the

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<sup>121</sup> Case in point is the multi billion-dollar Bakun project, which was awarded to Daim Zainuddin, a close ally of Mahathir, financial advisor to the government and UMNO treasurer. See RS Milne and DK Mauzy, *Malaysian Politics*, pp 150.

<sup>122</sup> Anwar won as deputy president after the incumbent Ghafar dropped out of the race. Anwar's vision team took all three positions as vice presidents with one of them getting the highest number of votes. Anwar's men also won the UMNO youth presidency and a majority of the seats on the supreme council.

<sup>123</sup> Muhyiddin, the vice president with the highest vote was banished to the low profile Ministry of Culture. Many of the others were appointed as deputy ministers in Mahathir's own department thus ensuring they had no real clout and allowing himself to keep an eye on their activities.

apprentice from unseating his master in the next UMNO elections, Mahathir changed the party constitution to bar contests for the top two posts of president and deputy.

In any case, the economic crisis converted the rift into a full-blown political crisis. While Mahathir concentrated on attacking currency speculators and rogue investors, announced the continuance of mega projects (such as the \$3 billion scheme to build a pipeline, highway and rail link from Malaysia to Thailand, dubbed the land bridge)<sup>124</sup> and made known his plan to bail out troubled Malaysian companies; Anwar, as Finance Minister, unveiled an emergency economic package which amounted to an admission of the severity of the crisis. Anwar's package - essentially an IMF plan without the direct involvement of the world body - promised to cut government spending by 21 percent, cut back on imports and restrict lending. It ruled out the bailout of troubled banks and tossed out Mahathir's land bridge project.

Across the border in Indonesia, the crisis had resulted in the overthrow of the military dictator Suharto. In Thailand and the Philippines the financial turmoil acted as a catalyst for leadership change. Such events evidently boldened

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<sup>124</sup> Mahathir made the announcement to proceed with this project in November, See Robert Garran, *Tigers Tamed*, pp 108.

Anwar's supporters who started calling for reform as much as they worried Mahathir's camp, which feared losing power. In the 1998 UMNO General Assembly, one of Anwar's staunch supporters, Zaid Ibrahim fiercely denounced the government's practice of cronyism, nepotism and corruption in the allocation of privatized contracts. Mahathir reacted by publishing the names of contract recipients, which showed that Anwar's relatives had also benefited from such projects. This General Assembly also saw a coordinated distribution of a hastily published book containing sordid allegations about Anwar's personal behavior, including abuse of power and homosexuality.

A weakened Anwar announced that he would not challenge Mahathir in the 1999 General Assembly. But Mahathir would not wait and take the risk. He instead began preparing the ground for the fatal blow to his rival. A month after the General Assembly, Mahathir appointed a trusted ally, Daim Zainuddin to the post of Minister for Special Functions in charge of steering the country out of the economic crisis – a job which encroached into Anwar's sphere of influence as Finance Minister. Mahathir placed the Central Bank under Daim's purview. A month later two pro-Anwar editors of a leading UMNO controlled Malay newspaper were forced out. Mahathir consulted extensively with key UMNO figures to consolidate loyalty. On September 1, 1998, Mahathir announced the

fixing of the Malaysian Ringgit, suspended its overseas trading and imposed a range of currency controls. The following day, he announced the sacking of Anwar as Deputy Prime Minister and Finance Minister. UMNO expelled him during an emergency session the same night. The markets reacted with shock but Mahathir's currency controls held the Ringgit steady. Anwar, making the most of the presence of thousands of foreigners and the international press that had descended into Kuala Lumpur in anticipation of the Commonwealth games launched an Indonesia styled popular revolt to overthrow Mahathir. The embattled Prime Minister was forced to wait for the games to end and for the international press to leave before taking action, providing Anwar space and time to organize. Mahathir responded with heavy-handed police actions after the closing ceremony. Anwar himself was arrested under the ISA after addressing a crowd of some 50,000 supporters in the capital city. A month later Anwar appeared to face a battery of charges, with visible bodily abuse – caused by an assault on him carried out personally by the highest-ranking police officer in the country while under detention.<sup>125</sup> The court refused to allow Anwar use a

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<sup>125</sup> Mahathir bowed to the international and domestic public outcry over such brutality. The Inspector General of Police subsequently pleaded guilty in a court for assaulting a handcuffed Anwar on the night of his arrest. He was sentenced to three months jail.

defense of political conspiracy and sentenced him to enough years in prison<sup>126</sup> to permanently eliminate him from the political scene. Scarred by the daily pro-Anwar demonstrations that disrupted life in the capital, Mahathir appealed to the demonstrators to use the ballot box to bring about their desired reform.

Anwar was allowed to register a political party and largely due to efforts of the new party, large numbers of youth registered as first time voters with the Election Commission. The Commission has by law a fixed time frame to ratify the new voter list. Mahathir called for national elections before this time frame was up, thus disenfranchising more than 681,000 newly registered voters.<sup>127</sup>

Mahathir retained power by winning a two-thirds majority in parliament. His party lost two majority-Malay states<sup>128</sup> to Anwar's coalition and had a significantly reduced majority overall<sup>129</sup>.

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<sup>126</sup> Six years on sodomy charges and nine on corruption – both sentences to run consecutively making it a total of 15 years that Anwar would have to spend incarcerated in the event his appeals failed.

<sup>127</sup> The figure given by the Election Commission is 681,120 eligible voters. The commission registered these voters during its annual exercise between April and May of 1999. An average of 200,000 people typically participate in these annual exercises. These new voters were disenfranchised on grounds that the Commission could not prepare new electoral rolls before February 2000. See Khoo Boo Teik, "Unfinished Crisis: Malaysian Politics in 1999," in *Southeast Asian Affairs 2000*, pp 179.

<sup>128</sup> In Kelantan, Mahathir's party won 2 of the 43 state seats, in Terengganu 4 out of 32, and in Kedah 24 of the 36 seats. At the parliamentary level, the BN won one seat in Kelantan, nothing in Terengganu and seven of 15 in Kedah *Ibid*, pp 180.

<sup>129</sup> The BN saw a 9 percent decline in its popular vote to 56.5 percent. UMNO's parliamentary representation fell by 22 seats from 94 to 72. Nine UMNO Cabinet Ministers and deputies – the highest number ever – lost their seats. At the state level, the BN suffered a 17 percent decline – a 58 seat loss, down from 339 out of 394 seats in 1995 to 281 in 1999. *Ibid*.

Using the new mandate given to him, Mahathir consolidated his power, won more than enough time to steer the battered economy into recovery mode, picked an Anwar nemesis as his deputy and announced his retirement one year ahead of time in order to groom his successor. So successful would be the transition that the next general elections would see the complete obliteration of Anwar's political party, a four fifth majority in parliament and the return of all but one of the nation's 13 states to Mahathir's party.

## 2.5 CONCLUSIONS AND IMPLICATIONS FOR FOREIGN POLICY

Saravanamuttu describes Mahathir as an "iconoclast."<sup>130</sup> Milne and Mauzy argue that the premier is best categorized as an idiosyncratic person within an idiosyncratic category.<sup>131</sup> Given the nature, style and substance of his two-decade rule, it is argued that Mahathir the individual had a domineering effect on every major aspect of Malaysian political life, foreign policy included.

Mahathir combined the convictions that he is always right and that he is the best leader for the country with a skillful and when necessary, ruthless

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<sup>130</sup> Johan Saravanamuttu. "Malaysia's Foreign Policy in the Mahathir Period, 1981-1995: An Iconoclast Come to Rule, in *Asian Journal of Political Science*, Vol 4 No. 1 (June 1996).

<sup>131</sup> RS Milne and DK Mauzy, *Malaysian Politics*, pp. 183: "his beliefs and actions are unusual, constituting a pattern that has been fascinating."



determination to eliminate competition, adversaries and obstacles, be they individuals or institutions in order to stay in power on his own terms. His deputy, Musa Hitam has described him as "ambitious, ruthless and autocratic."<sup>132</sup> He devoted a great deal of attention to those aspiring to succeed him – in particular his hand-picked deputies - and held them in check, balanced them or eliminated them depending on their level of threat posed.<sup>133</sup> He took on institutions that could potentially balance the power of the executive, in particular the judiciary and monarchy, weakening them considerably in the process. He amended the UMNO party constitution to eliminate any challenge for the number one post held by him.<sup>134</sup> The result was an extraordinary concentration of power within his offices. As this process reached its climax,

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<sup>132</sup> Quoted in Mohamad Yusof Ahmad, *Continuity And Change In Malaysia's Foreign Policy, 1981-1986*, pp 348.

<sup>133</sup> When Musa was his deputy, he maintained Razaleigh in his cabinet even though Musa had defeated the latter in party posts and asked Mahathir to drop Razaleigh from the cabinet. Razaleigh thus acted to check Musa. To slow Anwar's meteoric rise, Mahathir appointed the aging and accommodating Ghafar as his deputy. When Ghafar resigned after being defeated in the party elections by Anwar, and Mahathir's own candidates - incumbents Badawi and Sanusi - were wiped off the vice presidential slate by Anwar's team in 1993, Mahathir showed mastery in the skills of keeping Anwar in check by using one of Anwar's own lieutenants. He banished virtually all of Anwar's winning team to lesser positions, but appointed Najib to the prestigious and powerful education Ministry. But when he feared Anwar had become too powerful to hold in check in the winner takes all stakes that the economic crisis of 1997 produced, Mahathir eliminated the threat with a ruthlessness never experienced in Malaysian history.

<sup>134</sup> The amendment required any challenger to the party president's post to secure a third of all nominations from the 91 divisions. Such a rule favored the incumbent, and acted as a hurdle for the challenger. Since the nominations were to be openly declared, divisions were extremely reluctant to nominate anyone other than the incumbent. The incumbent president has won uncontested, every election since.

Mahathir came to believe that his way was the only way, even if he had to stand very much alone. This was especially so when he had invested time and energy into understanding an issue of importance to the nation, and believed he had the ultimate solution. On the other hand, loyalty was a prized item in Mahathir's political mindset. Loyalists were appointed to positions of importance, trusted (even though some betrayed the confidence placed in them)<sup>135</sup> and rewarded. Under such circumstances, it is unclear if even those in his inner circle had the ability to give the premier unbiased counsel.

The foreign policy implications of such traits relate mainly to the policy making process in particular its selection of objectives, priorities, allocation of resources and the crucial decision making process itself. During Mahathir's tenure, foreign policy making moved from the combined realm of select government institutions to the prime minister himself. The fairly substantial role in policy making that the bureaucracy (in particular those branches entrusted

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<sup>135</sup> Zainuddin, *The Other Side*, pp 258-259 writes about Abdullah Ang – a businessman who enjoyed Mahathir's confidence can accompanied the premier on his overseas trade missions. Mahathir refused to distance himself from Ang despite being embarrassed by him. Ang was subsequently jailed 8 years for criminal breach of trust. Such was the influence of Ang due to his closeness to Mahathir that *The Malay Mail* newspaper in its August 11 edition published photos of Ang in the city center enjoying his tea, reading newspapers and running his business while serving his jail sentence. The case of Harun Idris, the man responsible for Mahathir's re-admission into UMNO in 1971, further illustrates Mahathir's appreciation of loyalty. Mahathir's pre-decessor Hussein Onn ordered Harun – then chief Minister of the powerful Selangor state - arrested for corruption. Harun was sentenced to 6 years jail, sacked from UMNO and ousted as Chief Minister. Mahathir obtained a royal pardon for Harun when he was acting prime minister in Hussein's absence in London for a coronary bypass operation. Harun returned to active politics immediately. See *Ibid*, pp 70-75.

with foreign service and trade) enjoyed under previous regimes evaporated under Mahathir, who presumed the role of determining foreign policy decisions, at times without consultation with the bureaucracy, and at times overriding objections.<sup>136</sup> Malaysian Diplomat Mohamad Yusof, in discussing MFP in the first five years of the Mahathir regime quotes MFA head Zainal Abidin Sulong as concurring with the view that "MFA role in policy formulation was either minimal or virtually nil."<sup>137</sup> Non-governmental institutions, the legislature, press, and think tanks either did not get to play or role, or similarly saw their role as negligible. Foreign Ministers and Foreign Secretaries in the Mahathir era did not enjoy the sort of independence and clout enjoyed by many of their predecessors.<sup>138</sup> Selected on the basis of loyalty rather than experience in foreign affairs, the foreign affairs portfolio can be said to have suffered in terms of relative importance in the Malaysian cabinet. Mahathir's control on foreign policy was so visible that one could not be faulted for mistaking him as

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<sup>136</sup> Malaysian diplomat Mohamad Muda writes: "Many admit it is part of the Foreign Ministry's job to offer advice to the Prime Minister on a particular course of action. In fact it now appears rather that the Ministry is coming round to the Prime Minister's way of thinking." See his article "Malaysia's Foreign Policy and the Commonwealth, in *The Round Table* 320, 1991, pp 458

<sup>137</sup> Mohamad Yusof Ahmad, *Continuity And Change In Malaysia's Foreign Policy, 1981-1986*, pp. 351 and 352.

<sup>138</sup> Ghazalie Shafie, foreign secretary under the Tunku era and Foreign Minister under the Razak, and Hussein eras was credited with being the architect of much of Malaysian Foreign Policy of these administrations.

simultaneously holding the foreign ministerial portfolio. After all, it was he who announced foreign policy decisions, justified them in terms of national needs and defended them to critics. The role of the 130 overseas-mission strong Ministry of Foreign Affairs and Ministry of International Trade and Industry was relegated to justifying and implementing policy decisions. Diplomat Mohamad Yusof captures the predicament of MFA as follows:

“MFA was confronted with the unpleasant task of having to rationalize, explain and clarify (policies) without clear knowledge of their rationale and meaning in the first place. In short, MFA’s role was significantly reduced to a rationalizing function. It was also expected to undertake ‘damage control’ measure in response to negative feedback from target audiences.”<sup>139</sup>

Not having a say in the policy making process obviously affected its implementation. As an example, Mahathir announced the Buy British Last, Look East and Antarctica policies (discussed in Chapter 5) without consultation and knowledge of the relevant bureaucracies.<sup>140</sup> As will be seen later, these policies were largely ineffective to the extent that they were either abandoned or reversed

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<sup>139</sup> Mohamad Yusof Ahmad, *Continuity And Change In Malaysia’s Foreign Policy, 1981-1986*, pp 355.

<sup>140</sup> Muda, *Ibid*, gives the example of Mahathir’s Commonwealth Policy; “His announcement (of the policy’s reversal) even surprised the Malaysian Foreign Ministry, which...had not been consulted for its views...While the Prime Minister knew exactly what he wanted out of (the policy), the Foreign Ministry...had to think of ways to exploit (the policy) for its foreign policy objectives...The Foreign Ministry, at first, had little idea how to respond to the Prime Minister’s announcement....” Pp 464-465.

due to the fact that they failed at the implementation level. Diplomats have even put on record MFA's resentment at some of these policies.<sup>141</sup>

An added implication of the above mentioned traits of Mahathir, in particular his ability to concentrate power within his offices and thus to have it his way, was the resort to un-orthodox, unpopular and at times rather shocking foreign policy decisions. This may have been the result of the absence of unbiased counsel in the foreign policy decision-making process. Malaysian diplomat Mohamad Muda says, "Mahathir has had no foreign ministers who could stand up to him or balance his own impetuosity, or who could persuade him to heed advice from the Foreign Ministry."<sup>142</sup> Worse, it could have been the result of lack of any sort of counsel. Mahathir's deputy during the Buy British Last, Look East and anti-Commonwealth Policies has said that these policies were not "extremely debated in the Cabinet."<sup>143</sup> Malaysia's decision to withdraw abruptly from the foreign exchange market in 1998 is illustrative of the Mahathir

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<sup>141</sup> Mohamad Yusof Ahmad, *Continuity And Change In Malaysia's Foreign Policy, 1981-1986* writes on pp. 355 "The MFA's non-involvement, no doubt, evoked undercurrents of resentment." And again on pp. 353 "Mahathir's anti-Commonwealth policy was particularly resented by MFA.

<sup>142</sup> See "Malaysia's Foreign Policy and the Commonwealth" pp.458.

<sup>143</sup> Musa Hitam, quoted in Mohamad Yusof Ahmad, *Continuity And Change In Malaysia's Foreign Policy*, pp.352.

style of decision-making. By his own admission,<sup>144</sup> Mahathir says the decision was made by an Executive committee - empowered to act without cabinet approval - comprising himself, the Deputy Prime Minister cum Finance Minister, Minister with Special Functions, head of the Economic Planning Unit, head of a think tank, and an unidentified businessman. Mahathir had the central bank experts brief him on the workings of the foreign exchange market, concluding that "the Prime Minister's understanding of the foreign exchange market was essential in devising a plan to save Malaysia from currency speculators and the IMF." It is clear that Mahathir's plan was vehemently objected to by the hand-picked committee, as the prime minister admits before dismissing their concerns: "most of the members were against it;" "the Minister of Finance did not fully understand the concept of offshore Ringgit...the central bank did not enlighten him or it too did not understand;" "one member of the committee came up with 32 reasons why Malaysia should not attempt to control the (foreign) exchange rate;" and that "the central bank was unconvinced and opposed the controls." Needless to say the Executive Committee was over-ridden, as the Prime Minister put it: "eventually, with various degrees of reluctance, it was decided that the controls would be imposed." Mahathir's conviction to have his highly un-

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<sup>144</sup> All facts and quotes in the remaining section of this Para are derived from Mahathir Mohamed, *The Malaysian Financial Crisis*, pp. 27, 32, 36,37 and 43.

orthodox and shocking solution imposed in the face of severe opposition from even handpicked and loyal appointees is telling of the idiosyncratic ability to exercise domination over the decision making process. In his own words "the world was shocked...it was madness for Malaysia, a small developing country, to go against the rest of the world, almost." But Mahathir took pride in his way as being the way.

The above example also illustrates, albeit indirectly, a more sinister trait of Mahathir's decision making, namely that in crucial matters, even hand-picked committees served no more than to legitimize decisions already arrived at by the premier. The currency controls were a crucial prelude to the impending sacking of Anwar – a decision that Mahathir had presumably already taken – given that the sacking was announced one day after the currency controls. It is unlikely that the committee had this information, given that Anwar sat in it. The controls were absolutely vital to contain the shock with which the KLSE and the currency markets were expected to succumb to in reaction to the sacking. If Anwar was to be sacked, the currency controls had to be in place. The committee was thus in position to have decided against the currency controls.

The resulting loss of say in the decision making process amongst relevant institutions, created a sense of frustration and in some cases opposition at the

implementation stage which tended to undermine the objectives. A case in point is Mahathir's Antarctica Policy (discussed in Chapter 5). The policy was the brainchild of Mahathir himself and he devoted an immense amount of energy to articulate it. The policy was in line with Mahathir's notions of international justice and unfair Western dominance and gave him an opportunity to provide Malaysia and himself with exposure. Nevertheless, many in the diplomatic core could not fathom the rationale of a small and resource-less Malaysia wanting to adopt a un-implement able policy on such a complex international issue.

Malaysia had virtually no assets that could be used to persuade others in the international community – a step that was necessary for the policy at the strategies and action stage. Such helplessness and inability to identify with the goals of the policy created considerable opposition within the diplomatic community. Diplomat Mohamad Yusof captured the feeling “(t) he MFA's non involvement, no doubt, evoked undercurrents of resentment.”<sup>145</sup>

As was illustrated in this chapter, Mahathir is a self-made politician – having no family, royal or political connections to help him climb the ladder. His plebian background, mixed ethnic roots, traditional family life and local education helped shape his political psyche in which foreign life or an overseas

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<sup>145</sup> Mohamad Yusof Ahmad, *Continuity And Change In Malaysia's Foreign Policy*, pp 355.



education played no part. His political mind and ideology were thus self-made and homegrown. In this process of self making, he accumulated a variety of *idée's fixes*, both favorable and otherwise, regarding the Malays, the Chinese, the British Commonwealth, the West, the North, the Japanese, lawyers, judges, journalists, civil service, and currency traders. In the same process of self-discovery and realization, he developed a deep-seated ideology of Malay nationalism. This process of self-making also inculcated in Mahathir the virtues of practicality – a trait he drew upon to modify his early narrow nationalism to one with a broader Malaysian and even global base, though Malay concerns still remained core – albeit more discreetly.

The foreign policy implications of such traits lie in the general orientation of some policies, the substance of others and in the foreign policy rhetoric used by Mahathir. At the macro level, Mahathir's nationalism negated any strong pull to be pro British or pro-West. He often resorted to anti-Western rhetoric and tended to frame international issues within the parameters of the North-South divide. He tried to steer a foreign policy that looked towards the East – Japan in particular. The Malay nationalism in him necessitated the use of foreign policy to uplift the economic and business standing of the Malays. He actively sought out local Malay entrepreneurs, opened foreign doors, encouraged and where

possible facilitated partnerships with foreign entrepreneurs and made it clear that the foreign policy establishment of the nation was working hand in hand with the nation's equity restructuring plans. As will be shown later, the underlying objective of the Look East policy was to provide opportunities for Malay-Japanese joint ventures, and Buy British Last to delimit Chinese-British ones. The Malay-Japanese ventures, if and when successful, would help break the backbone of Chinese domination of the economy. But Mahathir's Malay nationalism increasingly became a subset of the broader Malaysian nationalism. It was in the pursuit of this broader nationalism that he used foreign policy to provide the impetus for national development. His foreign policy sought markets for Malaysian products, aggressively pursued FDI, and went after foreign expertise and technology with unparalleled zeal. It will be argued that Mahathir's foreign policy can be aptly labeled "developmental foreign policy."

Mahathir's sense of practicality provided an added dimension to the use of foreign policy, namely as a tool of regime maintenance. The domestic policy of privatization – a policy that created the phenomenon of rent seeking and thus sustained political patronage for the regime was frequently injected with foreign policy initiatives. Handpicked loyal entrepreneurs who were handed the

privatized projects were further assisted by the regime, through foreign policy initiatives, to obtain foreign partners, funds and expertise.

Mahathir's sense of practicality also enabled him to use foreign policy rhetoric to meet the challenge of a serious domestic challenge to his regime, namely Islamic fundamentalism. Though having none of the resources to conduct any foreign policy actions in the mainly turbulent Islamic world, the premier devoted a great deal of ideas, speeches and rhetoric on issues such as Palestine, Afghanistan, the Middle East, Iran-Iraq war, Bosnia, Saddam's Iraq, and the OIC. The premier's zeal and quality of ideas won him international acclaim as an Islamic world statesman, yet the utility of such recognition was purely domestic – he used it effectively to undercut the opposition fundamentalist Islamic party's (PAS) appeal within an era of middle class Islamic resurgence in Malaysia.

His sense of pragmatism further allowed him to conduct dual-track foreign policies. He made Malaysia the spokesman for the Third World and vociferously rallied the developing world against the North. Such action was always balanced by pragmatic MFP actions of maintaining trade, military and diplomatic ties with the Western world. Mahathir's pragmatism allowed MFP to come to terms with the global economic and political dominance of the USA and

the West after the collapse of the erstwhile Soviet Union. It allowed MFP to shed the pretenses of neutrality and non-alignment and ally Malaysia with the USA against America's global war on terror. It is perhaps an ultimate exercise in practicality for Mahathir to have loudly championed the South while discreetly courting the North and have attained success on both levels.

As illustrated in this chapter, Mahathir believed in a strong executive and government and constantly sought to consolidate power and control. To accomplish such a belief, Mahathir drew from his penchant in life for discipline and hard work, as much as he drew from his medical training – traits illustrated by the two prominent slogans displayed in his Cabinet room – a Frank Sinatra inspired “All must be done my way” and “Thank you for not smoking.”<sup>146</sup> His consolidation of power was not arbitrary, and his methods were neither poorly conceived nor lacking in finesse. He did not seek power for the sake of power, but for the sake of curing the ills of society as perceived by him. He dealt with opponents “surgically” – delivering doses just enough to kill the germs but never the patient or society in general. One could say that his dosage was always

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<sup>146</sup> Rithaudeen, who held various cabinet positions in the Razak, Hussein and Mahathir eras, says that all former premiers had their favorite brands placed on the Cabinet table. The “All must be done my way” plaque is placed prominently on a cupboard at the back of his chair. Mahathir's cabinet meetings were serious affairs beginning at 9 am promptly every Wednesday. One could not imagine a minister leaving the Cabinet room to watch his favorite show – as indeed had happened when the law minister in Hussein Onn's cabinet left a cabinet meeting to watch a boxing match in the PM's office. See KN Nadarajah, *Tengku Rithaudeen, His Story*, pp 161-163. .

proportional to the severity of the disease.<sup>147</sup> His medical background affected his often brutusque rhetoric as well. He dealt with his ideas “clinically” – directly without the aid of tact or diplomatic language. As much as a doctor seeks to develop a rapport with his patients in the hope that they will not reject his bitter prescriptions, Mahathir sought populism amongst his subjects just as much as he sought power. He formulated goals and pursued them with apparently unlimited determination, energy and the belief that he could not be wrong; fighting in a disciplined manner, those who thought he was. But he always went to great lengths to explain, justify and defend sometimes endlessly, his goals and policies. Privatization, structural development, economic growth and communal harmony were his top priorities. If successful, they would steer the nation in the desired direction and provide the populist sentiments he sought.

The foreign policy implications of this trait relate to Mahathir’s deep seated personal involvement in not just the policy making process, but also its implementation and justification. He paid much the same attention to the details

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<sup>147</sup> William Case makes the point that despite the authoritarian nature of the Mahathir rule, the regime did not resort to methods common in developing world dictatorships – extra judicial killings, disappearances of opponents etc. Case also points out that in the 1987 crisis, Mahathir did not have the leadership of Team B arrested or harassed in any way. Only low ranking officials had to put up with preventive detention. See *Comparative Malaysian Leadership*, pp 471 and 461. Zainuddin, *The Other Side*, pp. 189 states that when Mahathir shut down *The Star* and Sin Chew Jit Poh, all the editors got was a lecture and not jail. The case of Anwar Ibrahim does seem to negate Case and Zainuddin’s theory, and suggests instead that Mahathir’s ruthlessness in dealing with opponents was somewhat proportional to the stakes that were involved.

of foreign policy as he did to domestic matters.<sup>148</sup> The prime minister traveled overseas extensively, often taking an entourage of selected local entrepreneurs with him with the hope of linking them up with foreign bankers, exporters and importers. Mahathir knew his privatization projects, the nation's economic growth designs and structural development plans could not succeed without international assistance. He thus engaged himself personally in foreign policy initiatives as much as he did in each of these three areas. The result was that the nation's foreign policy steadily but surely moved from the traditional defense and security related one under his pre-decessors to one that revolved around commercial and developmental diplomacy. Luring FDI, opening of new markets for Malaysia's growing exports, facilitating reverse investments, increasing trade and acquiring of foreign technical expertise became the pillars of MFP. Such moves brought visible progress and development to the nation and served the populist ends of Mahathir. Taking advantage of the addition of some 20 new states to the world map upon the end of the Cold War, Mahathir personally traveled to as many CIS countries as possible for this purpose. As for security and defense, Mahathir was content with letting existing collective security regional arrangements such as the ARF and provisions of the UN that promised

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<sup>148</sup> Muhamad Muda in "Malaysia's Foreign Policy and the Commonwealth" makes this point, pp 459

to protect small states do their part. Buying modern arms only became a foreign policy priority when the foreword defense posture of Singapore became too real to ignore (Chapter 4).

As alluded to earlier in this chapter, Mahathir had a penchant for things grandiose. He sought to make Malaysia a fully developed state, pushed mega projects and sought to give Malaysia a grand place on the world stage.

The foreign policy implication of such a trait was that it took away from MFP the notion of proportionality. Mahathir's foreign policy vision was one that befitted a large and powerful nation. His foreign policy rhetoric could not be matched into any sort of meaningful way by the tiny and resource barren diplomatic corps. He promulgated grand designs for the international community (such as the Antarctica policy, regional trading blocs to balance the EU and his calls to regulate currency traders), envisioned his small country solving its economic woes without international assistance (he spurned the IMF during the 1997 crisis), mooted designs for the Islamic nations of the world to unite, and called on the third world to act collectively. But Malaysia had none of the resources required to provide any sort of practical shape to such proposals – resources that would ordinarily be in the possession of super or medium powers. The result was policies that were laden with rhetoric but out of sync with

practical realities. They further sapped the resources of parts of the bureaucracy, which had to nevertheless perform the rituals of implementation for such policies. Diplomat Mohamad Yusof alludes to such a situation,

“MFA was confronted with the unpleasant task of having to rationalize, explain and clarify (policies) without clear knowledge of their rationale and meaning in the first place.”<sup>149</sup>

There is thus no denying that Mahathir’s idiosyncrasy acted as a vital factor in providing the shape and substance to MFP during his two-decade rule. His individual traits, political ideology (in particular his brand of nationalism) and leadership style bear powerful imprints on the policy. Nevertheless it is argued that Mahathir could not and did not operate in a vacuum. There is a need to examine a host of other factors that interacted with Mahathir’s idiosyncrasy to provide a more comprehensive explanation of MFP in the period of study. The next two chapters thus look, respectively, at the domestic and external environments within which MFP under Mahathir took shape.

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<sup>149</sup> Mohamad Yusof Ahmad, *Continuity And Change In Malaysia’s Foreign Policy*, pp. 355



## **CHAPTER 3: THE SOURCES OF MALAYSIAN FOREIGN POLICY 1981-2003: DOMESTIC FACTORS**

### **3.1 INTRODUCTION**

This chapter outlines the domestic factors that have influenced the shape, substance and direction of MFP during the Mahathir era. Domestic factors are described as aspects of a nation – political, economic, societal and cultural – that condition, influence or contribute to the nature of foreign policy. The principle proposition here is that MFP in the Mahathir era was guided by three major domestic objectives – integration of Malaysia’s ethnically cleavaged society, national development, and maintenance of the Mahathir regime.

This chapter is divided into four sections. One section each is devoted to the three objectives above and the conclusion traces the distinct ways in which they influence foreign policy.

### **3.2 NATIONAL INTEGRATION.**

Malaysia’s population fits Furnivall’s<sup>1</sup> thesis of a cleavaged society as well as Lijhpart’s<sup>2</sup> plural society. Its population is divided along ethnic lines<sup>3</sup> and

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<sup>1</sup> JS Furnivall, *Colonial Policy and Practice*, New York: Praeger, 1948.

<sup>2</sup> Arend Lijhpart, *Democracy in Plural Societies: A Comparative Exploration*, New Haven: Yale University Press, 1977.

these differences coincide with religion, mother tongue, affluence, vocation, value systems, geographical location and political power distribution.

Historically, the aboriginal *Orang Asli* are recorded as the earliest indigenous people, and they were treated as slaves (*Sakai*) by the peasant Malays, who themselves consisted of local born and those that had emigrated from the Indonesian Archipelago.<sup>4</sup> Most Chinese and Indian Malaysians trace their origins to South China and India respectively. Most of them were brought to Malaya by the British in the 19<sup>th</sup> and 20<sup>th</sup> centuries to serve the colonial policy of raw material extraction.<sup>5</sup> Some 2.3 million Chinese and 700,000 Indian immigrants worked on the tin mines and the plantation sector respectively in British Malaya. Given that the Malays then numbered 3.1 million, the immigrant numbers were substantial. By the time of independence three-fifths of the Chinese population and half the Indians had been born in Malaya<sup>6</sup>.

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<sup>3</sup> The *UNDP Human Development Report* lists Malaysia's population for 2001 as 23.5 million. The *Government Official Yearbook* for the same year indicates that the largest ethnic group is the Malay (51% of the population) followed by the Chinese at 30%.

<sup>4</sup> JM Gullick, *Indigenous Political Systems of West Malaysia*, London: 1965, pp. 74-80. The Archipelago Malays include the Achenese, Boyanese, Bugis, Javanese, Sumatrans, Minangkabau, Rawa and Mandailing.

<sup>5</sup> See Amarjit Kaur and Ian Metcalfe, *The Shaping of Malaysia*, NY: St Martin's Press, 1999, pp. 82

<sup>6</sup> Source for figures: Saw Swee Hock, *The Population of Peninsular Malaysia*, Singapore: Singapore University Press, 1988, pp. 50.

Two major factors impeded inter-cultural contact between the indigenous and immigrant races - the patterns of settlement - which were by and large synonymous with economic function and the colonial policy of divide and rule. The Malays mostly remained in rural areas as subsistence peasants; the Chinese chose to settle in the tin mining areas which eventually grew into urban and commercial centers; while Indians remained in plantations.

As part of the divide and rule policy, the British co-opted the feudal Malay aristocracy into the civil service<sup>7</sup> while excluding the immigrant races from administrative and political office. They encouraged rural Malays to remain as farmers<sup>8</sup> while impeding the immigrant races from agricultural pursuits. These policies assured the Malays that their way of life was not under threat and thus minimized the risk of rebellion.

For the divide and rule policy to work effectively, the idea of race as a natural basis for human differentiation was crucial. The British used the population census as the primary tool in performing the complicated task of

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<sup>7</sup> JM Gullick, *Indigenous Political Systems*, pp. 35.

<sup>8</sup> The official British policy was "to make the son of a peasant a more intelligent peasant than his father has been, and a man whose education will enable him to understand how his own lot fits in with the scheme of life around him." See Peter Searle, *The Riddle of Malaysian Capitalism*, Hawaii: University of Honolulu Press, 1999, pp.29.

identifying, differentiating and classifying people in Malaya.<sup>9</sup> It has been argued that this practice became the basis of communal politics in the country and has been continually used by post-independence political elite to maintain their positions of power.<sup>10</sup>

The Japanese occupation of Malaya in WW2 and its aftermath exacerbated the communal divide in Malaya. The Japanese, driven by factors of practicality, maintained the Malay rulers, adopted Malay as the common language of the Japanese Command, maintained the Malay police force, and sponsored Malay nationalistic organizations.<sup>11</sup> The Chinese, however, were subjected to large-scale massacres and widespread brutalities – such treatment being inspired by the ongoing Sino-Japanese war.<sup>12</sup> The result was the flocking of the Chinese to the fringes of the jungles to escape such treatment, many of whom either joined the communist led MPAJA and CPM guerillas - groups supported by the Allies in their anti-Japanese activities – or became sympathizers. This had a negative

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<sup>9</sup> Judith Nagata, *Malaysian Mosaic: Perspectives from a Poly-ethnic Society*, Vancouver: University of British Columbia Press, 1979, pp. 44 provides an account of the use of the census in this regard.

<sup>10</sup> T Harper, "The New Malays, New Malaysians: Nationalism, Society and History," in *Southeast Asian Affairs*, 1966, makes this argument.

<sup>11</sup> The Kesatuan Rakyat Indonesia Semenanjung ( Union of Indonesian and Peninsular Peoples). See William Roff (ed) *The Origins of Malay Nationalism*, KL: University of Malaya, 1974, pp.231.

<sup>12</sup> Victor Purcell, *The Chinese in Modern Malaya*, Singapore: Donald Moore, 1956 says there is evidence that up to 40,000 Chinese were killed by the invading Japanese Army in the first week of occupation alone. See pp.249.

impact on race-relations in Malaya since the Chinese became associated with the highest form of evil the Muslim Malay mind could conceive – communism.

When the British returned to reoccupy Malaya in September 1945, they found themselves having to deal with the MPAJA, which was in control of the country, a host of well organized Malay freedom movements inspired by the shattered myth of colonial supremacy, labor strikes and the first serious communal riot in the nation's history.<sup>13</sup> To work out a new political arrangement, the British had discussions with the Malay leaders, but excluded the non-Malays, thus worsening the deteriorated ethnic divide. The British outlawed the MPAJA and the CPM whose leadership retaliated by declaring war on the colonialists. An Emergency was declared,<sup>14</sup> under which the police were given wide powers of arrest of political activists and trade unionists. Some 5,000 people were detained in the first 6 months.<sup>15</sup> But the more serious component of the Emergency was the Briggs Resettlement Policy. Aimed at breaking the link

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<sup>13</sup> This riot began as retaliation by the resistance (primarily Chinese) against Japanese collaborators and the police force (primarily Malay). Anne Munro Kua, *Authoritarian Populism in Malaysia*, London: MacMillan Press, 1986, pp. 18.

<sup>14</sup> The Essential Regulations Proclamations for Malaya was enacted in July 1948 and it gave the police extraordinary powers of search, preventive detention, curfew, control of movement of traffic and the use of death penalty for the unlawful possession of arms. Press censorship in the form of a printing permit from the Chief Secretary was introduced. See Short, A., "Communism, Race and Politics in Malaysia", in *Asian Survey*, Vol 19, No 12, 1970.

<sup>15</sup> *Ibid*, pp 49

between communist insurgents and the civilian rural populations, the policy required the resettlement of 1.2 million people<sup>16</sup> in 558 urban centers called "new villages." Two-thirds of those affected were Chinese who had settled in the jungle fringes during the Japanese occupation. The policy resulted in the uprooting of squatters, destruction of crops and confinement to repatriation camps.<sup>17</sup> Anne Munro Kua has argued that the plan created a serious and long lasting demographic change by enhancing the already high urban concentration of the Chinese.

"The resettlement pattern also compounded the effect of other policies aimed at preventing the emergence of a rural Chinese peasantry, thereby further reducing the possibility of identification with their Malay counterparts."<sup>18</sup>

A positive effect of the Emergency, however, was that having contained revolt it opened the door for peaceful and negotiated independence. The British, through legislation and the promotion and support for accommodationist local politicians prepared for the transfer of power on the basis of a social compromise written into the constitution of independent Malaya. The compromise allowed

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<sup>16</sup> Anne Munro Kua, *Authoritarian Populism*, pp. 21.

<sup>17</sup> Short, A., "Communism Race and Politics," pp. 56. These villagers were further subjected to after dark curfews, raids, interrogations, and confined within barbed wire perimeter fences. Malnutrition and poverty often resulted due to the poor condition of the soils.

<sup>18</sup> Anne Munro Kua, *Authoritarian Populism*, pp. 21.

for political and administrative control of the country to remain in the hands of the Malays, who would further enjoy special rights. In return non-Malays were accorded full citizenship rights. Three parties UMNO, MCA and the MIC representing the Malays, Chinese and Indians respectively joined into an alliance to win the 1955 elections and form the first independent government of Malaya. It has been argued that race-based political parties and the social contract between the main races institutionalized communalism as the state ideology.<sup>19</sup> This phenomenon would, for decades, influence the shape and substance of all things political in Malaysia.

The Alliance government however faced serious challenges to its hold on power from ethnic-based opposition parties. Given the myriad of demands and frustrations caused by a variety of economic, political and social disparities that existed between the races, political undercutting became the choice weapon of most parties. The opposition obtained roughly half the popular vote in the second General Elections, though the Alliance was still able to hold power.<sup>20</sup> In the racial issues-dominated 1969 General Elections, however, the Alliance

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<sup>19</sup> Anne Munro Kua, *Authoritarian Populism*, pp. 24-25 makes this argument.

<sup>20</sup> In the 1959 elections, the Alliance won 74 out of the 104 seats, as opposed to 51 of the 52 seats in 1955. The voter support had declined from 80 percent to 51 percent. See K.J. Ratnam, *Communalism and Political Processes in Malaysia*, KL, 1963, pp. 201

formula was dealt a near fatal blow by the electorate. The government lost its two-thirds majority, conceding three of the thirteen state governments.<sup>21</sup> Malay voters had drifted from UMNO to support the radical PAS, while Chinese voters had turned from the MCA to the opposition DAP, PPP and *Gerakan*.

Parties from both side of the divide held massive victory rallies which brought racial tensions to boiling point. The jubilant Chinese based opposition rallies drove home the point that their victories signified the end of Malay political control. The UMNO rally called by Selangor Chief Minister, Harun Idris raised the cry that Malay supremacy was being challenged by infidels and that the Chinese needed to be taught a lesson.<sup>22</sup> During the course of the riots the loudspeakers of mosques were used to urge the rioters to continue in their actions.<sup>23</sup> The result was days of unprecedented riots and violence which resulted in 178 deaths and 6,000 mainly Chinese residents becoming homeless.<sup>24</sup>

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<sup>21</sup> UMNO lost 17 parliamentary seats; MCA lost 20 seats, and the MIC one. The Alliance lost control of Penang, Kelantan, and Perak; and had only simple majority in Terengganu while Selangor was in a tie. In seven of the 13 states, the Alliance had less than 50 percent of the popular vote. See Kassim I., *Race Politics and Moderation*, Singapore, 1979.

<sup>22</sup> *Far Eastern Economic Review*, May and June 1969.

<sup>23</sup> Reid, Anthony. "The Kuala Lumpur Riots and the Malaysian Political System." *Australian Outlook*, Volume 23, Number 3. December 1969, pg. 269-70

<sup>24</sup> Official figures. *The Straits Times*, Singapore, 21 June 1969. Others have put the figures higher, up to 700 dead. See [www.nationmaster.com/encyclopedia/May-13-Incident](http://www.nationmaster.com/encyclopedia/May-13-Incident).



The government suspended Parliament and the Constitution, declared an Emergency and set up the NOC which was headed by the deputy prime minister Tun Razak and comprised military, police and public service heads as well as politicians. The NOC dealt with radical Malay elements that were demanding for the return of Malay sovereignty and Tunku's resignation by sacking them from UMNO. Home Minister Tun Ismail stated the NOC rationale for the expulsion of Mahathir and Musa as follows:

"These ultras believe in the wild and fantastic theory of absolute domination of one race over the other communities, regardless of the constitution...I will not hesitate to use my powers under the law against those responsible."<sup>25</sup>

The NOC also arrested opposition politicians, banned political party publications and censored the local press. Normalcy returned 21 months later albeit with a grossly changed political landscape and an amended constitution. The three-party Alliance added ten more parties to its platform to become The National Front. The Front now had as its partners the radical Islamic based PAS and the Chinese based *Gerakan* and PPP – these parties having chosen the advantages of joining the ruling party over the disadvantages of remaining in the

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<sup>25</sup> *The Straits Times*, Singapore, August 3, 1969. As shown elsewhere in this work, both were rehabilitated and brought back into UMNO two years later. Musa would become deputy prime minister in the Mahathir Cabinet.

opposition and having their activities significantly circumscribed. This move restored the two-thirds majority of the Front and left only the DAP as a major opposition force.

Most importantly however, the NOC diagnosed material inequalities between Malays and non-Malays as responsible for the May 13 riots, and used the 21 month Emergency interlude to devise state sponsored affirmative action measures aimed at addressing the economic backwardness of the Malays. The new measures and programs, known collectively as the NEP were to be implemented over a 20 years period. The NEP stipulated a new relationship between state and private capital in which the state took the leading role and laid down the agenda with private capital in tow. The NEP specified that Malay ownership and control of commercial and industrial activities in all categories be increased from 2.4 percent to 30 percent in two decades.<sup>26</sup> To achieve this goal the government created state instruments whose collective task was to acquire resources through majority stakes in public listed companies, and then through

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<sup>26</sup> Peter Searle, *The Riddle of Malaysian Capitalism*, pp 66. The formula was 30 percent equity in the hands of the Malays, 40 percent for other Malaysians, and 30 percent for foreigners.

loans subsidies, contracts, licenses and discounted shares, "breed Malay capitalists."<sup>27</sup>

The government emphasized that an expansion of the economic cake would precede NEP based restructuring. Capital creation relied largely on exports of natural resources - Malaysia was the world's largest producer of rubber, tin and palm oil and a major exporter of timber products. But it was the discovery of offshore petroleum and natural gas in the mid seventies that helped the regime underwrite its expensive social engineering policies.<sup>28</sup>

The Mahathir regime came into power when the NEP was, in terms of its timeline, halfway down the road. But its objectives were far from being on track. By 1981 the government had ended up providing for 50 percent<sup>29</sup> of all investment in the country – an indication that private capital was not contributing enough to the enlargement of the economic cake. The Malay middle class that had been created was the result of political patronage rather than the

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<sup>27</sup> James Jesudason, *Ethnicity and Economy: The State, Chinese Business, and Multinationals in Malaysia*, Singapore: Oxford University Press, 1989, pp.76

<sup>28</sup> Throughout the 1980s, petroleum and timber brought in the highest export earnings. See BN Ghosh and Syukri Salleh, (Eds.), *Political Economy of Development in Malaysia*, KL: Utusan, 1999, pp. 100.

<sup>29</sup> The Industrial Coordination Act of 1975 was mainly responsible for this. This Act instituted a licensing system giving the government power to insist that firms meet NEP requirements in terms of (30 percent Malay share ownership in order to operate. The result was the scaling down of domestic Chinese investments and the decline of FDI by 60 and 70 percent respectively up to 1977 when the Act was amended. See Amarjit Kaur, *The Shaping of Malaysia*, pp.160 and 204, and Peter Searle, *The Riddle of Malaysian Capitalism*; pp 43.

genuine growth of a class of entrepreneurs.<sup>30</sup> Malay ownership of corporate capital was not only off target; it was mainly in the hands of trust institutions.<sup>31</sup> The Chinese domination of the economy had not been broken in any significant way.<sup>32</sup> Rubber and Tin prices were at an all time low, demand for the country's manufactured products was damp and a slowdown in the economy that led to a full blown economic crisis three years down the road was already underway. When the crisis did come in 1986, it not only brought the NEP to a standstill, it threatened to undo the little that had been genuinely achieved. Mahathir acknowledged this.

“In the mid-1980s the Malaysian economy was not doing very well. The country was experiencing a recession...The economy was stagnating. The

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<sup>30</sup> See Gomez and Jomo, *Malaysia's Political Economy*, Chapter 3

<sup>31</sup> In 1981 the Malay ownership of equity stood at 12 percent. It was targeted at 16 percent. See *Third Malaysia Plan*, pp 184. In 1990, at the end of NEP's 20-year lifespan, Malay equity stood at 20.3 percent, lower than the 30 percent target. Of this, 7 percent was held by trust agencies. See *Second Outline Prospective Plan*, pp 102-204. There exist literature, which suggests that the Malay share is underestimated, presumably to justify the continuation of NEP beyond its lifespan. See Lim Lean Lean, "The Erosion of the Chinese Economic Position" in *The Future of Malaysian Chinese*, KL: MCA, 1988, pp 28 -30, and Fong, C.O. "Malaysian Corporate Economy Restructuring Since 1970" pp 6-10, an unpublished paper. Gerakan Party's *NEP After 1990*, pp 187 shows that the 30 percent figure had been achieved well before 1990. The *Malaysian Business* of 16 October 1984 quoted a Gerakan official as saying: "our estimate shows that the Malays have already achieve 30 percent of national corporate wealth at the end of 1984." The government rejected these assertions. Verification of these alternative estimates is not possible since their methodology is not stated. *The Financial Times* of October 7, 2002 in its world report on Malaysia says the figure stood at about 20% in 1998.

<sup>32</sup> A 1996 survey of the top 100 companies on the Kuala Lumpur Stock Exchange showed that 40 percent were under Chinese ownership. See Edmund Terence Gomez in *China Business in Malaysia: Accumulation, Accommodation and Ascendance*, UK: Curzon Press, 1999, pp 3. Gomez's entire work is devoted to answering the question as to "how Chinese capital managed to develop its corporate holdings despite having to operate in the NEP environment that seemed inimical to its interests." See pp. 5.

business climate was generally depressing and the government revenue was no longer growing. Indeed it was shrinking. Progress in the implementation of the NEP had ground almost to a halt.”<sup>33</sup>

The Mahathir regime, given the premier’s Malay-nationalistic ideological tilt, took up the mantle of the NEP with an ever-increasing zeal. But it was becoming clear that the pre-Mahathir formula of expanding the economic cake before redistribution was not working very well due to falling commodity prices, underperformance by NEP oriented wealth generating state instruments<sup>34</sup> and a slowing down domestic economy. The regime nevertheless continued to subscribe to the cake expansion principle; but it explored new ways to do it. It began to look beyond Malaysia’s borders for ways to compensate for the failure to expand wealth domestically.

Six measures were deployed by the Mahathir regime in this regard.

Firstly, it sought to revert to Malaysian control, majority stakes in sectors of the economy that were still in foreign hands. Such a move was expected to stem the

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<sup>33</sup> Mahathir Mohamed, *The Way Forward*, pp 20-21.

<sup>34</sup> A good number of SEDCs were losing money. In 1981 the Terengganu SEDC reported no profit. See *The New Straits Times*, 2 Nov 1981. The Pahang and Kedah SEDCs made losses of 3 million and 11 million Ringgit respectively in 1984. See *Malaysian Business*, 1 August 1985. Upon coming into power, Mahathir’s deputy Musa Hitam, saying that “SEDCs must make money” ordered an urgent reassessment of the role of SEDCs – all of which owed huge debts to the Federal Government. See *The Straits Times*, Singapore, September 7, 1981. Another example is the Urban Development Authority (UDA), which provided assistance to Malay traders expand their businesses in Chinese-dominated urban commercial centers. Unpaid loans by Malay businessmen, failed joint ventures and administrative malpractices caused UDA to lose millions. See Bruce Gale, *Public and Private Enterprise in Malaysia*, KL: Eastern Universities Press, 1981, pp. 141.

flow of profits overseas and facilitate domestic re-investment. Particular attention was paid to resource-based industries – petroleum, plantations and tin mining – as well as banking and finance; most of which had hitherto been in the hands of British entities. The result was that foreign share of the nation's economy fell from 62 percent at the start of the NEP to 25 percent two decades later.<sup>35</sup> Second, the regime undertook measures to prop up commodity prices through active involvement in the international commodities exchanges. Third, the government prioritized the attraction of foreign investment. Hence even though the foreign share declined in relative terms, foreign equity continued to expand in absolute terms, that is from \$3,377 million at the start of NEP to \$27,525 million in 1990 - an increase of nine fold.<sup>36</sup> Fourth, the government actively sought to create new foreign markets for Malaysian products and services and expand existing ones. The 1980s marked the transformation of Malaysia's economy into a manufacturing and export-oriented one, hence the need for markets. In 1970, the manufacturing sector accounted for 13 percent of Malaysian GDP composition. By 2000, it had become the single largest sector at 38 percent. By contrast the figures for the agricultural sector moved in the

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<sup>35</sup> *Second Outline Prospective Plan*, pp.103.

<sup>36</sup> *Ibid.*

opposite direction (30 percent in 1970 to 10 percent in 2000).<sup>37</sup> Fifth, the regime actively promoted and facilitated joint business ventures between local Malay and foreign entrepreneurs. These foreign partners were relied on to provide the financing, technological expertise and managerial know how to their Malay partners in the hope of increasing their competitiveness viz a viz the Chinese. Sixth the regime promoted reverse investments in new states such as the CIS and former communist ones in Europe and Indochina. In the two decades of the Mahathir regime, reverse investments had gone up more than ten fold.<sup>38</sup>

All six measures involved foreign policy initiatives – two (the take over of foreign ownership and Malay-foreign joint ventures) were tied into the domestic policy of privatization, while the remaining four - active participation in international commodity exchanges, the creating of new markets, attraction of FDI and reverse investments - were purely or mainly foreign policy initiatives. The actual foreign policy initiatives relating to these measures are discussed in chapters 5 and 6, but the remaining section outlines how these five measures influenced, at a macro level, the substance, shape and general direction of MFP.

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<sup>37</sup> B.N Ghosh and Muhammad Syukri, *Political Economy of Development*, pp.213.

<sup>38</sup> See Samuel Bassy et.al., *The Changing Phases of the Malaysian Economy*, pp. 145.

The measure involving the take over of foreign control involved the use of overt and covert foreign policy acts. The regime's preferred method was to use regulatory measures to pressure these foreign companies to reorganize their equity structure. Given that a majority of existing stakes by foreign interests were British in origin, appropriate foreign policy posturing, stances and rhetoric relating to Malaysian-British relations were deployed to prepare the ground and create an appropriate environment for the regulatory measures to work. Malaysia's Buy British Last Policy, lowering in MFP status of the Commonwealth, a "nationalistic" debate over the location of the British High Commissioner's residence in Kuala Lumpur, and anti-British rhetoric served the purpose of weakening the British resolve to actively fight these measures. Where regulation was deemed ineffective, covert acts were relied upon. These involved the practice of quietly purchasing shares on local and foreign stock markets followed by sudden takeover bids. The staging of a dramatic "dawn raid" by the state owned PNB for a general takeover of Guthrie at the LSE in September 1981 is case in point. Guthrie's fate persuaded others to restructure as well.

The measure of active involvement in international commodity markets relied on the covert use of foreign policy and intelligence apparatus. It signaled willingness by the regime to deploy covert instruments of foreign policy



reserved for states with better resources and higher risk absorbing potential, and this marked a shift. In June 1981, the Malaysian government, acting covertly as a “mystery buyer” made US\$750 million worth of purchases of tin on the LME – an act which caused the tin price to rise sharply and threatened to cause massive losses for brokers in futures on the LME. The scheme failed, however, because the LME countered the attempt to corner the market when it allowed traders to pay a fine instead of defaulting on their contracts – a move that together with the release of the US stockpile caused the price of the metal to collapse and left the world’s largest producer of tin with huge stocks of expensively purchased tin.<sup>39</sup>

The fourth, fifth and sixth measures (the attraction of foreign investment, finding new markets and reverse investments) served to give MFP in the Mahathir regime a commercial and developmental emphasis and focus. The effect of such a shift was that traditional elements of MFP in the pre-Mahathir era, namely security and defense, took a back seat. The focus on trade and markets also saw the arena of foreign policy implementation shift towards the MITI and its newly created trade promotion wing Matrade.

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<sup>39</sup> It took the government four years to admit its role in this expensive covert operation. After strong denials, Mahathir admitted in September 1986 that the mystery buyer was his government (through a company called Maminco, which operated, from the Finance Minister’s office. The premier defended the action as one taken in the national interest of the country and that it failed because of massive cheating in the LME. See *Asian Wall Street Journal*, September 22, 1986. Jomo, *Undermining Tin*, provides the details of the LME debacle. Pp 73.

### 3.3 REGIME STABILITY AND MAINTENANCE

The NEP, in addition to its social engineering prong, had a second broader objective – the eradication of poverty. Given that the majority of poor came from the rural based Malay ethnic group, the economic well being of this group is crucial in the maintenance and stability of the regime in power. There are four reasons for accepting such a premise. First, rural Malays formed the grassroots of UMNO, the backbone party of the ruling coalition. Second, the electoral constituencies of Malaysia are weighted heavily in favor of rural and predominantly Malay constituencies.<sup>40</sup> Since urban constituencies, especially those with non-Malay majorities, tended to vote opposition, mustering the rural Malay vote was crucial if the regime desired electoral victory. Third, given that the opposition PAS relied on its appeal to impoverished Malays, the regime had to constantly deal with the phenomenon of political undercutting by PAS amongst its own base. It has thus been argued that the regime used the NEP to broaden the Malay middle class and to strengthen its political base.<sup>41</sup> Seen in this

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<sup>40</sup> For the purposes of illustration, one may use the example of a rural constituency Kubang Pasu (Mahathir's Parliamentary seat) and Ipoh Timur (an urban Parliamentary seat occupied by the opposition DAP. In the 1995 general elections, the former had 44,000 voters (85% Malay), and the latter 71,000 (85% Chinese). Yet both sent one Member of Parliament each to the legislative assembly. Figures derived from Rashid Rahman, *The Conduct of Elections in Malaysia*, KL: Berita Publishing 1994, Appendix 3 and 7.

<sup>41</sup> Jesudason, *Ethnicity and the Economy*, pp159.

light, the creation of a Malay middle class with political loyalties to the regime became the real objective of the second prong of NEP.

When Mahathir took power in 1981, he inherited a Malay middle class, which had been created by the NEP and with few exceptions, relied extensively on state assistance for its continued economic survival. Peter Searle, in his study of Malaysian capitalism has suggested that this created a client-patron relationship of the Malay middle class with the regime.<sup>42</sup> This relationship affected UMNO's power base radically. The newly created business class became increasingly influential in UMNO affairs. Whereas in the 1970s a vast majority of UMNO delegates were civil servant teachers, in the 1980s business people replaced them as the biggest single category.<sup>43</sup>

It is argued that in the Mahathir era, regime stability and maintenance rested increasingly in the hands of UMNO members and less in the national electorate. Jomo<sup>44</sup> has argued that Malaysian elections in the Mahathir era

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<sup>42</sup> Peter Searle, *The Riddle of Malaysian Capitalism*, Chapter 4.

<sup>43</sup> "More business people are getting into politics. Before, most of the leaders of UMNO were Malay schoolteachers and they didn't have any money to spread around. Now we have successful businessmen going into politics." Mahathir in an interview with an Australian journalist. Quoted in Greg Sheridan, quoted in *Leaders of the new Asia-Pacific Tigers*, Australia: Allen and Unwin, 1997, pp 213

<sup>44</sup> See R.H. Taylor (Ed). *The Politics of Elections of Southeast Asia*, USA: Cambridge University Press, 1996. Jomo's chapter is titled "Elections' Janus face: Limitations and Potential in Malaysia," pp 90 -113.

increasingly served to maintain and legitimize those already in power, with national political leadership determined to contest for the UMNO leadership rather than the electoral process. Such a premise is made on the basis of characteristics and developments in the Mahathir era. The leadership style of the regime (chapter 2) as characterized by authoritarianism, concentration of power with the Executive, weakening of other branches of government, erosion of democratic institutions, and the coercive methods used to achieve all these resulted in the weakening of opposition political parties to the extent that they were never able to mount a serious challenge to the Mahathir regime. Throughout the Mahathir era, judging from the number of constituencies won uncontested by the regime on virtually every nomination day, the opposition's objectives in the elections have not been to offer voters an alternative government, but to merely deny the regime its two-thirds majority.<sup>45</sup> Jomo underlines this premise by arguing that,

“the popular suspicion remains that if an election should really offer the serious possibility of replacing the regime – currently determined by other processes, especially the UMNO party-leadership elections – it would not be held.”<sup>46</sup>

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<sup>45</sup>The 1999 and 2004 General Election in the aftermath of the Anwar Ibrahim affair, represented the first time the opposition contested sufficient constituencies to be able to form a government if returned. See *The Star* March 14 2004. The same cannot be said of the other general elections in the Mahathir era: 1982, 1986, 1990 and 1995.

<sup>46</sup> R.H. Taylor (Ed). *The Politics of Elections of Southeast Asia*, pp. 93.

The result of such developments have been the shift of the power of ensuring regime continuity from the hands of the electorate at large to that of UMNO members, in particular the select party delegates whose character, as suggested above, had changed from civil servants to business people reliant on the regime for economic opportunities.<sup>47</sup>

The consequence of this was that the regime stability, maintenance and continuity formula of the Mahathir era lay largely in the phenomena of patronage, rent appropriation, and other forms of amalgamation of politics and economics within the parameters of UMNO delegates who were largely business people. Such phenomenon were justified using the ideology first of NEP and then NDP - applied in a selective sort of way for the benefit of handpicked loyal capitalists. The tools used to achieve them were the privatization and heavy industrialization policies as well as the massive involvement of UMNO in business. The methods included the award of lucrative contracts and transfer of public sector services to businesses controlled by the dominant factions of the ruling party; and the use of government resources, executive, legislative and bureaucratic powers to facilitate and advance the operations of these

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<sup>47</sup> See the works of Edmund Terrence Gomez, *Politics in Business: UMNO's Corporate Investment*, KL: Forum, 1990, and *Political Business: Corporate Investment of Malaysian Political Parties*, Townsville: Univ of Northern Queensland, 1994, and Joel S Kahn and Francis Loh (eds), *Framgmented Vision: Culture and Politics in Contemporary Malaysia*, Sydney: Allen and Unwin, 1992.

businesses.<sup>48</sup> If these businesses made profits, they would serve the goal of political support for the regime from within UMNO, and if they simultaneously provided improved services to the population at large, the methods themselves would be accorded the legitimacy needed for their continued use.

The Mahathir era is thus viewed as a period of increased privatization and the massive involvement of UMNO in business. Peter Searle<sup>49</sup> has argued that few political parties in Asia can compare with UMNO's business record. UMNO's method was that while the party held no shares in any company, it exercised proprietorship through trusted individuals and regime loyalists<sup>50</sup> who owned shares and held directorships in well over 100 companies. At the close of the first decade of Mahathir's rule, the total number of shares owned by UMNO

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<sup>48</sup> An example of the use of government powers to ensure the profitability of a privatized company can be seen in the telephone industry. The unit charge for local telephone calls was increased by 30% just before privatization. The private company further dispensed with providing subscribers with 100 free calls, which were part of the deal subscribers got when the service was government owned. This in effect raised the rates even further. See *Aliran Monthly*, 14, 6, 1994.

<sup>49</sup> Peter Searle, *The Riddle of Malaysian Capitalism*, pp 103.

<sup>50</sup> The case of Halim Saad's involvement in Hatibudi illustrates this point. UMNO treasurer Daim Zainuddin formed Hatibudi in 1984 with paid up capital of \$2. A month later, Halim Saad and Mohamed Razali Abdul Rahman were appointed directors, and Hatibudi's paid-up capital increased to \$ 1 million with each director holding 499,999 \$1 shares. In early 1988, the Minister for Public Works revealed in Parliament that Hatibudi was a UMNO controlled company. See *The Asian Wall Street Journal* of Jan 18, 1988. The Journal further reported that according to Halim Saad's affidavit dated September 3, 1987, filed in relation to the opposition leader's case against the award of the North South Highway to the Hatibudi controlled United Engineers (UEM), the director said that he held his shares in the company "in trust for the beneficial owner, UMNO." See Peter Searle, *The Riddle of Malaysian Capitalism*, pp 107.

nominees was worth \$4 billion.<sup>51</sup> The extraordinary growth of UMNO's vast conglomerate spanned most sections of the economy and facilitated the growth of UMNO's business groups, which in turn wielded increasing influence within the regime. The appointment, in 1984, of entrepreneur and close Mahathir associate Daim Zainuddin as finance minister epitomized such a symbiotic relationship. Worth \$670 million in terms of total net assets at the time of appointment,<sup>52</sup> Daim held other positions, which allowed such symbiosis to flourish – he was head of the Fleet Group, the biggest of UMNO's four main investment arms<sup>53</sup> and later UMNO treasurer. Under Daim, the Fleet Group built a huge conglomerate<sup>54</sup> throughout the extensive use of the stock market. This conglomerate consisted of investments in the print industry, banking, insurance, hotel, property, television stations, food retail, construction, plantations,

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<sup>51</sup> *Far Eastern Economic Review*, July 5, 1990.

<sup>52</sup> At the time of appointment, Daim's stock on the local bourse was estimated at US\$151 million and net assets US\$259 million. Lent John A. "Telematics in Malaysia: Room at the Top for a Selected Few" in *Ilmu Masyarakat*, 1991, Vol 18, pp 41. His vast business interests included virtually all-key sectors of the economy: banking, plantations, broadcasting, manufacturing, retailing, property development and construction. Terrence Gomez, *Politics in Business: UMNO's corporate Investments, KL*" Forum Publications, 1990, pp 43, The total value of assets owned by Daim in 1992 were estimated at \$1 billion including those in Australia, Britain, Mauritius and the United States. Gomez and Jomo: *Malaysian Political Economy*, pp 56.

<sup>53</sup> The others were Hatibudi, Halimantan, and Koperasi Usaha Bersatu. See Peter Searle, *The Riddle of Malaysian Capitalism*, pp 104.

<sup>54</sup> Fleet Group's portfolio of investments included: The New Straits Times Press, Bank of Commerce, American Malaysian Insurance, Faber Merlin, TV3, Cold Storage, and Commerce International Merchant Bank. *Ibid*, pp 106

management services and telecommunications. Similar patterns can be traced for UMNO's other investment arms. Hatibudi for instance, grew from a \$2 company to be owner of hotels, construction firms, and banks.<sup>55</sup> In the early 1990s, UMNO's businesses were consolidated under one company Renong<sup>56</sup> that has since become one of the top three companies on the Kuala Lumpur stock exchange. With a market capitalization of about \$7 billion, it was one of Southeast Asia's largest conglomerates.<sup>57</sup>

Privatization was the vehicle of growth of the investment portfolios of many of these UNMNO related companies. In the first 12 years of the Mahathir regime, fifty-six major projects were privatized.<sup>58</sup> The privatization of the electronic media, telecommunications, the \$3.4 billion North South Highway, pharmaceutical outlets, gas supply, gaming, shipping, airlines and privatization of public services, public works and attendant construction projects essentially resulted in the transfer of assets and lucrative business opportunities from the

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<sup>55</sup> Hatibudi's portfolio included Seri Pacific Hotel, United Engineers Malaysia, Plus, and Hume. *Ibid*, pp. 107- 110.

<sup>56</sup> On 30<sup>th</sup> April 1990, the relatively unknown public listed company called Renong announced that it was buying the entire equity of Fleet and Hatibudi for 1.23 billion in one of the largest takeovers in Malaysia's corporate history. *Far Eastern Economic Review*, May 17, 1990. Subsequently in 1991, Renong acquired stakes in a variety of other UMNO related companies to complete the restructuring. *Ibid*. Pp 111.

<sup>57</sup> *Ibid*, pp 116 and *Far Eastern Economic Review*, May 17, 1990.

<sup>58</sup> Gomez and Jomo, *Malaysia's Political Economy*, pp 84-85.



public sector to UMNO controlled business.<sup>59</sup> The North South Highway for instance was expected to bring in \$54 billion in toll collection in 25 years.

A number of factors such as the lack of business acumen and experience, bad business practices,<sup>60</sup> and most importantly the 1985 economic recession<sup>61</sup> brought about heavy losses to some of these UMNO businesses with negative consequences for regime stability. The recession dampened demand for Malaysia's manufactured products. In 1986, the prices of the country's major commodities, rubber, tin and palm oil all fell by 50 percent or more.<sup>62</sup> By 1985 Fleet had raked up a massive \$222 million debt, which grew to \$343.5 million two years later. UMNO's other investment vehicles fared no better. By 1988 the

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<sup>59</sup> A case in point of the unique manner in which privatization was carried out is accorded by the award of the 3.4 billion North-South Highway project to UEM – a UMNO controlled company in March 1985. This award became the subject of a court case taken up by opposition leader Lim Kit Siang, who challenged the validity of the award. Much of the modus operandi of the award came into public knowledge as a result of this case. Amongst some of the details that surfaced: that UEM forwarded its proposal to the government, the cabinet discussed it, and UEM purchased documentation relating to plans for the highway project from the Works Ministry – all in the third quarter of 1985. Yet the tender was called in April 1986. Two other companies submitted more attractive offers than UEM, which had never built a major road and was insolvent. See Lim Kit Siang, *The \$2 billion North-South Highway Scandal*, KL: Kong Lee Printers, 1987, pp 11 and *The Star*, August 1, 1987.

<sup>60</sup> It has been argued that the assets purchased by Fleet were often either overvalued, or the shared offered were undervalued, allowing some individuals associated with UMNO to make large profits. See *Far Eastern Economic Review* July 5, 1990.

<sup>61</sup> To the recession, one may add the impact of another factor: Chinese businessmen taking their businesses aboard. Robert Kuok, Lim Goh Tong, Tan Chin Nam and Khoo Kay Peng stand among Chinese entrepreneurs who bypassed the state by diversifying their operations overseas. See Gomes and Jomo, *Malaysia's Political Economy*, pp. 43.

<sup>62</sup> Khor K.P., *Malaysia's Economy in Decline*, Penang: CAP, 1987, pp 3.

total debt of UMNO's business concerns stood at about \$1 billion.<sup>63</sup> It is argued that these financial woes and the resulting inability of the party leadership to distribute the spoils of success created a swell of dissatisfaction amongst party members and this led to an unprecedented challenge to Mahathir's leadership. The battle was led by UMNO vice-president Razaleigh Hamzah who was Daim's pre-decessor both as Fleet's head and Finance Minister. He was joined by roughly half of Mahathir's cabinet including deputy premier Musa Hitam. It is argued that this bitter political contest was essentially a battle between loyalists who benefited from Daim's (and by extension Mahathir's) own preferences while overseeing the massive expansion of UMNO businesses and the privatization policy, and Razaleigh's faction who felt deprived as a result.

Such factionalism resulted in a split of the party. A hair thin majority victory of Mahathir's team over its rivals in the party elections put regime stability at its lowest ebb given that the severe economic crisis presented an uncertain future even for the victors. There was an urgent need to bail out or otherwise assist the great number of regime loyalist entrepreneurs from going bust under the pressure of the recession because by now their futures were intertwined with that of the regime. The need to look beyond domestic resources

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<sup>63</sup> *Asian Wall Street Journal* Aug 23, 1990 and *Far Eastern Economic Review*, May 17, 1990. *Ibid*, pp. 114-115.

was greater than ever. It is this need that extrapolated regime maintenance into the realm of foreign policy.

The regime deployed a number of measures in this regard, the overriding objectives of which were to secure foreign funds, partners, managerial expertise, technological know how and opportunities for profits in foreign markets for select local entrepreneurs and businesses. Three measures are of relevance. First, the government made the attraction of FDI a priority. In 1986, the government enacted the IPA – an accommodative piece of legislation, which provided generous tax holidays, and pioneer status for periods of up to ten years for investments in export oriented manufacturing and agriculture sectors. This was to complement the government's liberal investment policies following the recession, which were achieved by amending the restrictive ICA.<sup>64</sup> The amendments raised the ceiling on shareholdings by foreigners significantly, in some instances to 80 percent, especially for export-oriented industries. Thus, while *Bumiputera* equity in approved manufacturing projects declined from 54.4

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<sup>64</sup> The ICA became law in 1975. This Act instituted a licensing system giving the government power to insist that firms meet NEP requirements in terms of share ownership (30 percent Bumiputera). The ICA stipulated that all firms with capital of more than RM 100,000 and 25 employees obtain a manufacturing license, with the Minister having powers to refuse a license in the "national interest." See Amarjit Kaur, *The Shaping of Malaysia*, pp.160 and 204, and Peter Searle, *The Riddle of Malaysian Capitalism*, pp 43.

percent in 1985 to 16.4 percent in 1990, foreign equity rose from 17.8 percent to 64.3 percent in the same period.<sup>65</sup>

Second, the government actively facilitated the creation of Malay entrepreneur-foreigner joint ventures to ensure the viability of privatized projects. The case of Antah Biwater illustrates this measure. In 1986, at the height of the economic crisis, the government awarded, without open tender, \$1.4 billion worth of water supply projects to the this company which had no relevant record in Engineering. To overcome this defect, the regime facilitated a joint venture with Biwater Ltd – a British water supply and treatment company with strong political connections to the Thatcher government. The British company's willingness to risk a joint venture with a non-engineering company lies in the active involvement of two governments at the foreign policy level – one providing the promise of a lucrative government project, and the other a financing package<sup>66</sup>. Another example is found in the 1993 award of a \$6 billion sewerage contract to Indah Water Konsortium (IWK)<sup>67</sup>. Having no experience in the construction, refurbishing and upgrading of sewerage systems as the contract

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<sup>65</sup> Yasuda Nobuyuki, "Malaysia's New Economic Policy and the Industrial Coordination Act, in *The Developing Economies*, 29(4) 1991, pp 340, 346.

<sup>66</sup> Gomez and Jomo, *Malaysia's Political Economy*, pp. 91.

<sup>67</sup> See Sally Cheong, *Changes in Ownership of KLSE Companies*, PJ: Corporate Research Services, 1995. pp. 236.

required, the regime helped IWK establish a partnership with a British water treatment company Northwest Water Ltd. Proton's deal with Citroen of France to produce new variants of the national car is another example of a regime facilitated joint-venture.

The regime's heavy industrialization and mega-project policies complemented this measure. The National Car Project, Steel Manufacturing, Cement Manufacturing, Silicon Valley, KLIA, Bakun Dam, New Government Complex, and KL Towers were among projects that were poised to benefit from foreign funds, expertise or managerial skills – all of which, it was hoped, would ensure the success of the projects, provide profits for the local entrepreneurs cum rentiers and affect regime stability positively.

Third, the government sought and created investment and business opportunities for local entrepreneurs in foreign lands and markets. New markets of the CIS; markets that were moving from socialism to capitalism – Vietnam, Laos, Cambodia, and China; and emerging markets of the developing world in Asia and Africa became the focus of MFP. Petronas for instance ventured into gas exploration, production, transmission and a host of other petroleum related

activities in 30 foreign countries – all achieved in the early 1990s<sup>68</sup>. UEM won a deal to build roads in India, and Bank Bumiputera tried its hand in real estate in Hong Kong. Other local entrepreneurs benefited from the regime's opening of doors in foreign lands by setting up, overseas, manufacturing plants, forest logging endeavors, banks, hotels and purchases of real estate abroad. As a result, Malaysia's reverse investments increased ten fold from \$1.07 billion in 1991 to \$9.69 billion in 1997<sup>69</sup>.

All three measures mentioned above resulted in foreign policy decisions and outcomes. The actual foreign policy initiatives relating to these measures are discussed in chapters 5 and 6, but the remaining section outlines how these three measures influenced, broadly, the substance, shape and general direction of MFP. The measure of attracting increased foreign investment made going after foreign capital a foreign policy priority. This measure further gave MFP a distinct commercial and economic tint. Matrade, MITI, MIDA and the economic division of MFA thus saw an increased focus and attention in their work and activities in this regard. This measure and the one involving the creation of joint ventures

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<sup>68</sup> Petronas has over 100 subsidiaries to handle its business interests in Latin America, Europe, Africa, Middle East, CIS, North and South Asia, Southeast Asia and Australia. It is ranked among the Fortune Global 500 largest corporations in the world. *The Financial Times*, London, October 7, 2002.

<sup>69</sup> Outflows of FDI are equity investment, loans and purchase of real estate abroad. See Samuel Bassy et.al. *The Changing Phases of Malaysian Economy*, PJ: Pelanduk Publications, 1999, pp. 145

required the abandonment of any and all foreign policy initiatives that created negative impressions of Malaysia in the eyes of the international community. Buy British Last was therefore effectively abandoned. Looking East became just Looking Foreign – the emphasis on ties with Japan being complemented by an emphasis on just about any nation willing to take advantage of a variety of competitive investment benefits being offered. The commonwealth moved back into its original position of eminence within MFP's list of priorities. From having once boycotted the organization, Malaysia hosted the 1989 Commonwealth Head of Government Meeting.

The third measure – new markets and reverse investments – gave an opportunistic slant to Malaysia's foreign relations. To enable Malaysian entrepreneurs to conduct businesses in former communist countries such as Vietnam, Laos, Cambodia or the pariah regime of Myanmar, MFP pursued, aggressively and successfully, the agenda of ASEAN 10 – the broadening of membership of the group to include these previously shunned states. While the stated foreign policy objective was regional security and stability, the expectation was that these states – themselves desiring ASEAN membership for a variety of purposes ranging from international legitimacy and backdoor trade ties with the developed world (via ASEAN's relations with the European Union, for instance)

in the face of strong regional and international condemnation - would repay Malaysia's support by providing investment and business preference to it. Additionally, the newly opened markets of the CIS saw themselves move up the priority list of MFP. The South-South Commission began to feature prominently in MFP's priorities in this regard. The setting up of new missions, exchange of visits of heads of state and other dignitaries, and the exploration of joint trade and investment opportunities became an important aspect of MFP – all of which were justified on the basis of Islamic and Third World solidarity, yet had distinct underlying economic and commercial elements.

The effect of such measures is difficult to quantify, but the regime succeeded in steering the country out of the recession by the end of the decade. By the early 1990s, privatization was back on track, the NEP's successor the NDP which reiterated the 30 percent Bumiputera equity but without a time frame was in place, and the practice of political patronage as entrenched as ever – albeit with new players. In 1994 for instance, Malaysia announced, as if to symbolize the end of the economic crisis, its largest privatized project – the construction of the massive \$15 billion Bakun Dam in Sarawak. The 190-meter high by 300-meter dam was touted as the largest in Southeast Asia. The project further included the underwater installation of two 648 kilometer-long transmission lines – the



longest in the world - between Sarawak and Peninsular Malaysia. The Silicon Valley, KLIA, and the New Government Complex were other examples of privatized projects that could match the Bakun project in terms of size and financial outlays.

UMNO's vast business interests and assets were now in the control of businessmen who had previously held them in trust.<sup>70</sup> While this made relations between politics and business increasingly complex and sophisticated, it did not alter, in any fundamental way, the practice of political patronage. The specter of the disenfranchised Razaleigh faction of the crisis period was replaced in the 1990s by different players – this time by a fiercely competitive, sophisticated and highly ambitious faction led by Daim's nemesis and successor, finance minister (and later Mahathir's deputy) Anwar Ibrahim.

Anwar's enticement into UMNO personally by Mahathir had much to do with the stability of the regime. An Islamic scholar and firebrand critic of the regime, Anwar led a growing movement of educated middle class urban Malays, ABIM – a social reform organization which, if allowed to join hands with the opposition PAS had the potential of bolstering the image and standing of the

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<sup>70</sup> Halim Saad had for instance gained control of Renong – UMNO's consolidated investment arm. Tajuddin Ramli, Shamsuddin Abu Hassan and Wan Azmi gained control of much of Waspavest – a UMNO holding company. See Gomez and Jomo, *Malaysia's Political Economy*, pp 123.

latter which hitherto catered only for the interests of the rural Malays. Mahathir took the sail out of ABIM by convincing Anwar to abandon the movement in favor of UMNO. Anwar, through shrewd political machinations, ascended the party hierarchy at spectacular speed to become deputy president of UMNO and by default Mahathir's number two in 1993. Being an UMNO outsider, Anwar naturally attracted those within the party who were left out as a result of the domination of the Malay corporate world by Mahathir and Daim's patronage practices. It has been argued that the support from a generally younger generation of corporate cum political UMNO figures was crucial in overwhelmingly displacing, in 1993, Mahathir's chosen deputy Ghafar Baba and consolidating Anwar's claim to succession of the party leadership.<sup>71</sup> By then, Anwar was, as Finance Minister and deputy Prime Minister, on almost equal footing with Mahathir and Daim in handing out government contracts, businesses, licenses and privatized projects to his loyalists.

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<sup>71</sup> Some of the political-cum-businesses figures associated with Anwar include Ishak Ismail, Sarit Yusoh, Kamaruddin Jaafar, Kamaruddin Nor, Nasruddin Jalil and Sebi Abu Bakar. Ishak was Anwar's former secretary at one time and controlled a number of public listed companies such as Idris Hydraulic, Wembley Industries, Golden Plus, Berita and KFC Malaysia. Sarit served as Anwar's political secretary in the 1980s and was Ishak's business partner. Yahaya was Anwar's schoolmate and together with Nasruddin Jalil, another of Anwar's former political secretaries, obtained two major privatized contracts from the government - the operation of Kuala Lumpur's mini bus services, and the inspection of vehicles on behalf of the Road Transport Department. Both Kamaruddins were Anwar's schoolmates and Sebi Anwar's college mate. Anwar's father Ibrahim Rahman was part of a consortium awarded a \$390 million government contract to develop a government psychiatric facility. See Gomez and Jomo, *Malaysia's Political Economy*, pp 125-126.

The economic boom of the 1990s allowed the Anwar and Mahathir-Daim factions enough share of government spoils, and even some competitive buyouts.<sup>72</sup> Anwar's group for instance bought over influential media companies such as NTSP and TV3 – presumably for use as campaign tools in future UMNO elections. The group also acquired a majority stake in HICOM. The phenomenal growth of the early 1990s also meant that it was not entirely crucial for all businesses or even politicians to neatly fit into mutually exclusive camps. Nevertheless, in the mid 1990s the competition between the two camps over the manner in which privatization projects were awarded began to sharpen. Careful analysis of the news slants of the Anwar group owned media (NSTP and TV3) relating to the privatization projects to the Mahathir-Daim group such as the sale of the national airlines MAS to Tajuddin Ramli, the Bakun Dam, Halim Saad's acquisition of the project to build a second causeway to Singapore, and the sale of Bank Bumiputera without the assent of the Finance Ministry to Landmarks indicate such a trend.<sup>73</sup> However, it took the financial crisis of 1997 to bring out

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<sup>72</sup> The period even allowed the Mahathir–Daim faction in particular to forge business ties with local non-Malay capitalists. Among those seen as business partners of UMNO linked businessmen included Vincent Tan of the Berjaya Group, T.K. Lim of Kamunting, Dick Chan of Metroplex, and Ananda Krishnan.

<sup>73</sup> The May 1994 issues of *The New Straits Times* for instance carry a number of unfavorable reports relating to the Bakun Project, which was awarded to businessmen loyal to the Daim-Mahathir group.

into the open the factionalism within UMNO, the intense power competition within the party and its effect on regime maintenance.

What is perhaps most ironical about the 1997 crisis is that it was caused primarily by the same factors that had allowed the regime to overcome the 1986 crisis, namely foreign funds. The 1986 economic recovery and the subsequent rapid economic growth till 1997 had been funded in large part by FDI boosted by the undervalued Ringgit and consequently lower production costs. Between 1985 and 1990, FDI increased four fold from US\$695 million to US\$2,333 million, before soaring to a peak of US\$5,183 million in 1992. In the region, Malaysia ranked only second to Singapore in terms of volume of FDI. The World Bank in 1996 reported that the KLSE had the highest market capitalization by volume in East Asia and that foreign portfolio contributed immensely to it.<sup>74</sup> Foreign loans factored in rather extensively too. The central bank reported that commercial banks' net foreign liabilities stood at \$25 billion just months prior to the crisis in June 1997, up from \$10 billion in 1995.

Between August and September 1997, some US\$40 billion flowed out of Asia's equity and currency markets on a wave of loss of confidence in the region, worsened by herd mentality and contagion. In Malaysia, the crisis first saw a

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<sup>74</sup> World Bank, *Managing Capital Flows in East Asia*, Washington DC: World Bank, 1996, pp 21.

plunge in the Ringgit from \$2.50 against the US dollar to a record low of \$4.88.

This meant that the foreign borrowings of the Malaysian private sector – estimated at US\$ 35 billion (39 percent of which was short term)<sup>75</sup> – almost doubled. The Composite Index of the KLSE plunged more than a thousand points – four fifths of its value being wiped out in 6 months. Since Malaysian banks had loaned out some \$39 billion<sup>76</sup> to individuals for share acquisition, plunging stock prices translated into a loan default crisis for the banking industry. The economy, which had been growing at about 8 percent in the entire decade,<sup>77</sup> went down to negative 6.8 percent in the second quarter of 1988. Some \$32 billion<sup>78</sup> flowed out of the domestic banking system as part of the crisis inspired capital flight. Thailand, South Korea and Indonesia sought emergency credit from IMF, but Mahathir saw the tough conditionalities of IMF as having the potential of affecting the stability of his regime. The crisis, and to a certain extent its prescriptions, had, after all precipitated regime changes in Thailand and South Korea and resulted in popular revolt that ended Suharto's 30-year rule in Indonesia.

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<sup>75</sup> Gomez and Jomo, *Malaysia's Political Economy*, pp 193.

<sup>76</sup> See *Euromoney*, April 1998.

<sup>77</sup> Mahathir Mohamed, *The Malaysian Currency Crisis*, pp 7.

<sup>78</sup> *The Star* June 22, 1998.

The Mahathir regime's central remedy for the crisis was the creation of a \$60 billion fund<sup>79</sup> to bail out selected Malaysian businesses. Two institutions – *Danaharta* and *Danamodal* were established to purchase NPLs and to re-capitalize selected financial institutions respectively. *Danaharta* acquired \$23 billion NPLs within six months and *Danamodal* injected \$6.4 billion into 10 financial institutions.<sup>80</sup>

It was this move, more than anything else that set the stage for a full-blown political crisis within UMNO. Though Anwar was Finance Minister, the disbursement of the fund was put within the domain of Daim who was brought back by Mahathir as Minister of Special Functions in June 1998. As a result, few, if any businesses of Anwar's faction expected to benefit from this fund.<sup>81</sup>

Anwar, through the Ministry of Finance and the Central Bank attempted a number of measures dubbed "the virtual IMF policy." The measures included the reduction of government expenditure by 21 percent, increasing of interest

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<sup>79</sup> Gomez and Jomo, *Malaysia's Political Economy*, pp 189.

<sup>80</sup> Paper presented by Mahani Zainal Abidin, "Malaysia's Economy: Crisis and Recovery," at Seminar titled Trends in Malaysia organized by ISEAS, Singapore on August 31, 1999.

<sup>81</sup> Some examples of bailouts include: Capital injection of \$1.1 billion to cover losses of Bank Bumiputera (*The Star* March 5, 1998), government take over of Bakun Project with compensation of \$700 million (*Asian Wall Street Journal* Dec 8 1997, and November 22, 1997), and Petronas buyout of shipping concern KPB whose shares had plunged from \$17.00 to \$3.70 and whose debt was to the tune of \$1.7 billion. (*Far Eastern Economic Review* Feb 19, 1998, and *The Star* March 7, 1998.) Other companies that benefited from such bailouts included Renong whose accumulated debt of some \$28 billion constituted more than 5 percent of loans by the local banks. (*Asian Wall Street Journal* October 12, 1998.)

rates, restrictions on consumer loans from banks, curtailment of construction projects (including the abandonment of some mega projects) and the maintenance of high statutory reserves ration.

It appeared as though two competing administrations were advocating two diabolically opposite remedies for a single malaise. It was, in reality, a reflection of the extremely high-stakes power struggle within UMNO. It was a struggle to protect the faction's power base within UMNO – the businessmen, rentiers and patrons upon the shoulders of whom the faction's maintenance and continuance rested. The Anwar faction saw Mahathir and Daim as trying to bail out their loyalists at the expense of detractors. In the 1998 UMNO General Assembly, Anwar supporter and party youth chief Zaid Ibrahim had this premise as the theme of his speech in which he equated Mahathir's bail out plan to cronyism, nepotism and corruption. The Mahathir-Daim faction saw Anwar's "virtual IMF policy" as part of an agenda to endear him with foreign elements that wished to see an end to Mahathir's rule. They saw it as a move to frustrate the multi billion bail out plan and an attempt to capitalize on the crisis by forcing Mahathir to choose between voluntarily surrendering power or face a Suharto

like overthrow.<sup>82</sup> The do-or-die zero-sum-game power struggle came to an explosive climax in September 1997 with the sacking from all party and government positions of Anwar, and the removal of his support base from the Central Bank, Ministry of Finance and media. The regime was faced with unprecedented challenges – massive pro-Anwar street demonstrations that threatened to take it down the road traveled by the Suharto regime just months ago. It unleashed the full force of the nation's security apparatus<sup>83</sup> to bring into control a political quake of unprecedented magnitude.

But the regime was aware that the real challenge to its continued existence in the midst of the nation's worst economic and political crisis came from within the ranks of UMNO, in particular those in the Mahathir-Daim faction who had to be saved from business doom to keep the regime afloat. To find the remedies, the regime, with its stability at the lowest ebb in history, turned in the same direction it had turned in the aftermath of the 1986 economic crisis – outwards.

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<sup>82</sup> Mahathir captures this premise as follows: "The 'recalcitrance' of the Malaysia leader was also now coming under criticism by a segment of the local population, who wanted the leader to bow out and give the reins to his deputy, who was also the Finance Minister. Supporters of the Deputy Prime Minister accused the government and by implication the Prime Minister of cronyism, nepotism and corruption. The message for the Prime Minister was clear. The economy would not recover unless he stepped down and handed the reins of government to his Deputy. However, the Prime Minister did not seem to get the message." See Mahathir Mohamed, *The Malaysian Currency Crisis*, pp. 26.

<sup>83</sup> That the demonstrators were dealt with brute force is perhaps illustrated by the vicious beating dealt on a handcuffed and blindfolded Anwar by the country's top policeman. See note 124 of Chapter 2.



The biggest problem in the crisis was the free-falling devaluation of the Malaysian currency, which translated into overnight trebling of corporate debt. Moves by the foreign creditors to recall loans based on loss of confidence brought about by the economic and political turmoil in Malaysia threatened the survival of these businesses. The government thus instructed the Central Bank to undertake a futile attempt to defend the currency using its foreign exchange reserves.<sup>84</sup> Mahathir then enlisted the help of non-government sources of supply of US dollars to help stabilize the local currency.

“There was a need to identify some sources of supply of US dollars which could be sold for Ringgit to offset the purchase of US dollars against Ringgit by the currency speculators...Malaysia has a number of companies with large export proceeds...who are natural sellers of US dollars. All that was required was to coordinate their sales of US dollars.<sup>85</sup>

This strategy failed because these sources were no match against the multi-billion dollar hedge funds and the large foreign banks, which allowed these funds to leverage up to 20 times their capital.<sup>86</sup>

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<sup>84</sup> “Bank Negara initially intervened to support the Ringgit, but quickly stopped intervening as it realized that it was up against forces with very much superior resources.” Mahathir Mohamed, *The Malaysian Financial Crisis*, pp 18. No official figure for the amount lost by the bank in this endeavor is available.

<sup>85</sup> *Ibid*, pp .34.

<sup>86</sup> *Ibid*.

The regime thus resorted to foreign policy initiatives to help alleviate the problem of its free falling currency. Mahathir announced the withdrawal of Malaysia from the foreign exchange market. In specific terms, this translated into the imposition of currency controls, elimination of the offshore Ringgit market, and fixing the previously floating Ringgit relative to the US dollar. In order to prevent KLSE's slide, the government ended the marketing of Malaysian shares on neighboring Singapore's over-the-counter market, CLOB,<sup>87</sup> and imposed a twelve-month prohibition of repatriation of portfolio funds from KLSE.<sup>88</sup> The fixed Ringgit and withdrawal from the foreign currency market enabled the government to gain control of monetary policy and stabilize the currency.

Next, the government sought actively to increase trade within the region, in particular its ASEAN neighbors, to make up for loss revenues. Given that most of these countries were affected by the crisis and did not have foreign exchange to finance imports, the government floated the idea of bilateral payments in local currencies instead of the usual US dollars. Mahathir pursued this initiative

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<sup>87</sup> The Malaysian government had banned short selling on KLSE, but CLOB, being beyond the jurisdiction of its laws continued the practice, which the Mahathir regime believed contributed to the plummeting of Malaysian shares. The holders of shares bought at CLOB were subsequently allowed to sell their shares at KLSE on an individual basis. See Mahathir Mohamed, *the Malaysian Currency Crisis*, pp 39.

<sup>88</sup> *The New Straits Times*, September 2, 1998

aggressively by traveling to Bangkok, Manila and Jakarta to get the proposal accepted.

But the biggest problem was that of raising money for the \$60 billion bailout fund. The Mahathir regime counted on Japan to come to its aid based on four imperatives. First Malaysia's Look East Policy had achieved some measure of success in cementing friendly ties between Malaysia and Japan. Second, Japan was Malaysia's biggest foreign investor; hence the well being of the Mahathir regime was expected to matter to the Japanese. Third, there were many Malaysian-Japanese joint ventures that were affected by the crisis. Fourth, the Japanese economy, in downturn since the late 1980s, was familiar with the business of bailouts, and hence more emphatic towards Malaysia's desire to circumvent the IMF.

The Japanese government pledged US\$80 billion – the world's largest economic support package to Asia during the financial crisis.<sup>89</sup> The driving force behind this initiative seems to be regional political and social stability and the expectation that recovery would facilitate further Japanese investment in these

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<sup>89</sup> The USA and European Union together pledged \$12 billion. See "The Impact of Asian Economic Crisis on Trade," in *Journal of Japanese Trade and Industry*, Jan 2000. This 80 billion was additional to the roughly 10 billion of Official Development Assistance (ODA) which Japan gives to developing countries on a yearly basis, most of which ends up in south, central and east Asia. See "Japan and Asia: Developing Ties," in *OECD Observer*, August 1, 1999, pp.70.

countries.<sup>90</sup> In the first year of the crisis alone, Malaysia received \$7.6 billion<sup>91</sup> in bilateral assistance - making it the largest recipients. This injection of funds allowed the regime to circumvent IMF conditions.

The financial crisis thus had an impact on the substance, style and rhetoric of foreign policy in three ways. First, it served to complete the cycle of the Look East Policy. Introduced personally by Mahathir at the beginning of his rule, abandoned during the 1986 economic crisis, and revived in the aftermath of the crisis, it acted as a lifeline for his premiership and the regime in the turmoil of 1997. Second, it completed the cycle on the regime's anti-Western/Northern rhetoric. At its peak in 1981 with the launch of Buy British Last, abandoned during nation's journey from the aftermath of the 1986 crisis into a full embrace of industrialization, liberalization and globalization of the 1990s, this anti-Western rhetoric came back with a vengeance as the regime sought to blame the developed nations and things associated with them – the IMF, currency speculators, herd mentality investors, George Soros, even globalization – for

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<sup>90</sup> Japan has the world's largest foreign aid program since 1991, and it traditionally been used to influence regional development. See KS Jomo in *South East Asia's Misunderstood Miracle*, Colorado: Westview Press, 1997, pp. 27 –55.

<sup>91</sup> Thailand, Indonesia, Philippines, South Korea (the four Asian states together with Malaysia which were the target of the Miyazawa Initiative), obtained between US\$1.5 –3 billion each in the first year following the crisis – over and above IMF assistance. See "State of Progress of the Miyaza Initiative" [www.mofa.go.jp](http://www.mofa.go.jp)

precipitating the 1997 crisis. Third, it completed the cycle relating to the status of ASEAN regionalism within MFP. From not having any particular importance in the early 1980s, to being relegated to just security in the economically glorious early 1990s, ASEAN had become important to Malaysian economic health in the immediate aftermath of the 1997 crisis – even though the organization's own relevance came under increasing scrutiny as a result of the crisis. Fourth, the crisis gave MFP a tint of limited isolationism. Malaysia's withdrawal from the foreign exchange market reflected an unprecedented move, and although limited strictly to the fiscal aspects, nevertheless created political ripples which affected its international image and standing – at least until the nation was vindicated by virtue of economic recovery as a result of the currency controls.

### **3.4 NATIONAL DEVELOPMENT**

The Mahathir regime remained fully aware that its twin goals - national unity through wealth redistribution as well as regime maintenance - could only be fully achieved within the background of a growing economy. The cornerstones of national unity – the NEP and NDP – required a constantly expanding economic cake for meaningful redistribution to take place. The regime's heavy reliance on the politics of patronage within UMNO too needed

sustained overall development and progress to enable adequate supply of economic handouts. The two economic and financial crises during the era of the regime illustrated perfectly the impact of stagnated progress on the regime's stability. Finally, the populist aspect of the regime necessitated sustained levels of widespread structural development to nurture popular support. It is argued therefore that national growth and development itself became a crucial goal of the regime.

Mahathir's government inherited a nation that could be best described as developing. Within the first decade of his rule Mahathir successfully put Malaysia into the NIC club – slightly behind Singapore but ahead of Thailand. By the mid 1990s the premier had announced the regime's plans to transform Malaysia into a fully developed nation within one generation. Given the record of the regime prior to the 1997 crisis, this did not appear altogether to be an elusive dream. Malaysia had, by 1990, become one of Asia's eight fastest growing economies in the world.<sup>92</sup> Its external reserves remained high throughout the 1980s and 1990s – capable of financing up to four months of retained imports, its external debt was maintained at about 40 percent of its GDP, and by 1998,

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<sup>92</sup> See the September 1993 World Bank report " *The East Asian Miracle: Economic Growth and Public Policy*."

Malaysia had become the world's 18<sup>th</sup> biggest exporter and 17<sup>th</sup> biggest importing nation.<sup>93</sup> Mahathir's Malaysia had all the "givens" of a successful nation – it had resources (especially petroleum), was politically stable, and had a savings rate that was higher than Japan.<sup>94</sup> The Malaysian miracle was achieved through the Mahathir formula of modernization, industrialization, liberalization, and privatization of the nation's economy.

It is argued that foreign policy played two distinct roles with regard to the development paradigms of the Mahathir era. First, MFP facilitated the realization of the Mahathir developmental formula. It did so by providing the vital inputs – foreign funds, markets and expertise. In other words, MFP acted as a facilitator for national development. Second, it served to mitigate one of the most serious domestic challenges to the formula, namely Islamic revivalism and fundamentalism.

### **3.4.1 MFP as a Catalyst for National Development**

The core argument here is that foreign investment, partnerships, markets and technology played a vital role in the Malaysia's ascendancy into the Asian

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<sup>93</sup> See Mahathir, *The Currency Crisis*, pp. 10 and 15.

<sup>94</sup> Malaysia's gross rate of savings in 1993 was 34 percent of GNP. *The New Straits Times*, November 27, 1993.

Tiger Club. Throughout the Mahathir era, there remained a strong nexus between Malaysia's development plans and foreign policy goals. So overwhelming was MFP's concerns with FDI, partnerships and foreign markets, that these concerns evolved into the cornerstones of the policy in the Mahathir era – displacing the traditional ones of security and defense. Hence the argument that Malaysia's external relations in much of the Mahathir era can be termed developmental and commercial diplomacy.

One of the legacies of the Mahathir era certainly relate to its ability and willingness to provide the pull factors for FDI – investors were always able to generate and repatriate profits, increase market share, have access to raw material and above all establish intimate working relationships with the regime. The returns for the nation were equally impressive – employment creation, increased exports, technology transfers, foreign exchange, favorable balance of payments, external markets, and various levels of partnerships with foreign entrepreneurs. Mahathir recognized these benefits and much more:

“we need FDI because they bring in ready made entrepreneurship, the market and marketing savvy, modern management and the technology. The...capital ensures that (home) countries' markets do not become restrictive.”<sup>95</sup>

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<sup>95</sup> Mahathir Mohamed, Speech titled “The Way Forward for Malaysia and Asia,” delivered at the Asia Society Dinner New York, USA on September 25, 1996



But it was the working relationship between foreign investors and the Mahathir regime, more than anything else, which made Malaysia one of the top destinations for FDI in the region. In 1995 for instance, just under a third of all FDI into Southeast Asia ended up in Malaysia making it the recipient of the largest share of FDI inflow, followed by Singapore and Indonesia. For the period of 1990 to 1995 Malaysia recorded a total of UD\$26.7 billion of FDI inflow. This amount constituted 31.3 percent of total FDI inflow into Asean during the five-year period.<sup>96</sup>

The significance of FDI flows into Malaysia during the Mahathir era lie both in the volume and quality. In 1981, when Mahathir took office, FDI inflow into Malaysia was less than a third of a billion US dollars and the bulk of it was in the manufacturing sector catering for domestic needs - given the import-substitution phase of the nation's economy. In the export-oriented phase of the early Mahathir era, the bulk of FDI moved from manufacturing to heavy industries.

Mahathir launched Malaysia's Heavy Industries Policy in the early 1980s with the establishment of HICOM – a body with the task of planning, identifying

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<sup>96</sup> *World Investments Report 1996*. In 1995 Malaysia received US\$5.8 billion, which was 29.7 percent of Asean's share of world FDI inflow. Singapore got 27.1 percent and Indonesia 23 percent.

and managing such projects. This policy amounted to a shift in pre-Mahathir industrialization policy, which concentrated, on processing imported raw materials (mainly foodstuff) and assembling imported components (mainly electronics). Mahathir did not believe that real industrialization and development could result from a policy focusing on manufacturing alone. HICOM set up companies, which were incorporated in an Industrial Development Master Plan drawn up by a group of development experts from the UN. Among the major projects undertaken by HICOM included the national car project, a steel mill, the Bakun Dam, a paper mill, a gas processing plant, cement production, and a motorcycle engine production plant. Malaysia obviously had no real technological expertise for any of these, and the economic crises of the mid 1980s made sure that it had no funds either. Mahathir set out to obtain both from abroad.

To get the national car project off the ground, the regime reached an agreement with Japanese car manufacturer Mitsubishi without sounding out other possible Japanese partners.<sup>97</sup> Faced with the problem of scale of production, the regime tried, but failed to get Indonesia to cooperate in widening the car's market. Eventually, the government settled on the dual track strategy of

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<sup>97</sup> See *Far Eastern Economic Review*, Dec 24, 1982 and *Asian Wall Street Journal*, March 1, 1990.

imposing high taxes on imported cars and aggressively promoting the national car in foreign markets. By 1996 one out of every five cars manufactured was being sold overseas. After suffering losses for a decade despite government subsidies, *Proton* was privatized in 1995. A second national car *Perodua*, with cooperation of other Japanese firms began rolling out in the early 1990s. In the mid 1990s, *Proton* had moved into the luxury car business by teaming up with French car producer Citroen.

HICOM's steel production plant *Perwaja* was a joint venture with Nippon Steel Corporation. The plan was to convert imported ore into sponge iron through the use of gas from Terengganu's offshore oil fields. After underwriting its losses of US 1 billion<sup>98</sup> during its initial years, the government privatized the project in 1995.

Beginning with 1996, the regime began looking beyond heavy industrialization and hence for a new home for FDI inflows. Its knowledge based economy drive resulted in a massive FDI attraction program for use in its Silicon Valley project, the MSC. This was by far the regime's most ambitious project. The MSC represented a 15 by 50 kilometer land corridor south of the capital city, which was scheduled to provide a conducive environment for companies

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<sup>98</sup> *Far Eastern Economic Review*, May 29, 1997.

seeking to create, distribute and employ multimedia products and services.

Expected to cost US\$10 billion in infrastructure development, it was to be serviced by a digital 10-gigabit fiber optic broadband network.<sup>99</sup> It aimed to make Malaysia the hub for every type of information technology business. The plan consisted of four elements. The first was the construction of a high capacity global communications and logistics infrastructure including a new large international airport, KLIA. The second element involved the physical development of 7,000 hectares, which included a new high-tech city *Cyberjaya*, the nucleus of the corridor and a new administrative capital, *Putrajaya*. The third element consisted of the development of multimedia applications and the fourth was to make Malaysia a leader in the protection of intellectual property. A second phase of the MSC would see the construction of 12 other intelligent cities in the country. At the completion of the project in 2020, these cities would all be linked to other intelligent cities worldwide, and MSC would have some 500 IT and Multimedia enterprises. Needless to say, the MSC could not succeed without foreign funds, talent and know-how. It was, as Mahathir admitted, "not something which we can embark on our own."<sup>100</sup> Mahathir personally headed

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<sup>99</sup> Bilson Kuras, "Malaysia: A Year of Introspection" in *Southeast Asian Affairs*, 1998, pp 170.

<sup>100</sup> Mahathir Mohamed, Speech to MSC Investors Conference at Hanover, Germany, March 20<sup>th</sup> 1998.

the two committees set up to oversee the project, and traveled to virtually every developed country to attract the much-needed funds and know how. By the close of the Mahathir era, the MSC counted as accomplishments the KLIA, parts of *Putrajaya* and *Cyberjaya* as well as commitments from some 100 IT investors from around the world.

### **3.4.2 MFP and the Islamic Challenge to Development.**

Islam has a significant yet peculiar place in Malaysian political life. Its significance is derived from the fact that its adherents are Malays. Its peculiarity in politics is that it serves as an instrument to mobilize support for the regime as well as a major challenge to it. Such peculiarity explains the regime's contradictory needs to both fan Islamic sentiments and keep them under tight rein at the same time.

It has been argued above that maintaining the support of ethnic Malays as a whole has been crucial to the maintenance and stability of the regime. This is due to two major factors. The first is the position of the Malays historically and the recognition to that given by the social contract between the ethnic groups of the country. The second is their slight numerical superiority viz a viz the non-Malay groups and the weightage given to rural Malay electoral constituencies.

Given the proximity of Islam to the Malays - provided by the centuries long entrenchment of religion in Malay political culture – the religion itself has come to represent an important instrument in matters of regime stability.

The role of Islam in Malay political culture goes back to the days of Malay kingship of the 15<sup>th</sup> century whereby the Sultans derived their authority and legitimacy from it.<sup>101</sup> Islam was further part and parcel of early Malay nationalistic movements, including UMNO whose expressed objective at its formation in 1947 was the protection of Malay identity and rights in the face of the large immigrant populations being imported by the colonial government. The secular, western-educated elitist leaders of UMNO understood that Islam was central to Malay identity and thus had little choice but to consider an amalgamation between their brand of nationalism and Islam. UMNO's decision to include in the federal constitution, the definition of a Malay in terms of his religious orientations entrenched Islam in Malay identity in the most permanent sense. However, it was the establishment of the Islamic fundamentalist PAS whose expressed objective was the setting up of an Islamic state if elected into power that set the stage for the role of Islam as an object of political undercutting between both parties in the modern Malaysian power game.

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<sup>101</sup> John L Esposito and John O Voll, *Islam and Democracy*, NY: Oxford University Press, 1996, pp. 125.

But there was a limit to how much undercutting the regime could do as compared to opposition PAS. Given the need of support from the sizable non-Muslim population for political legitimacy; its desire for modernization, development and economic progress; and the heavy reliance of foreign (read western) elements to achieve all these, the regime had the peculiar job of keeping the same Islamic sentiments it frequently fanned to outdo PAS under tight rein as well.

This peculiarity was viciously circular in nature. The regime's embrace of modernization demonstrated its ability to deliver progress in ways PAS could not – hence eroding the opposition's appeal. But modernization also translated into fears of loss of identity and values amongst the country's Muslim Malays. These fears tended to push the Malays further into the arms of PAS whose leaders often claimed the regime was un-Islamic. Malaysia's social ills such as drug addiction, teenage promiscuity, juvenile delinquency, and divorce had affected the Malays more than the other ethnic groups and tended to be blamed on the regime's lack of genuine concern with Islam. To put it starkly and paradoxically, the regime's modernization efforts weaned Malay support from PAS as well as help increase it.

Additionally, the regime's economic policies, especially the emphasis on the creation of a patronage-based Malay capitalist elite did not appear to benefit the ordinary Malays. These policies failed to sustain, much less expand the populist UMNO base of the pre-decessor regimes. To rectify these problems, dismiss perceptions that the government was less Islamic and disallow PAS from making political hay as a result, the regime resorted to fanning religious sentiments in the hope of portraying itself as equally if not more Islamic than PAS. Such political and religious undercutting ensured the continuous play of the vicious circle mentioned above.

To put it plainly, the regime had to ride the tiger, yet ensure it did not end up being devoured – a difficult task which required political skill and acumen of Machiavellian caliber.

More so for the Mahathir regime because it inherited an Islam that had undergone a revivalism in the 1970s. In the general sense, this phenomenon was part of the global Islamic resurgence of the decade. The Arab Israeli Wars, the loss of Jerusalem and the Arab oil embargo brought an outpouring of popular Islamic sentiments across the Muslim world. The 1970s also represented the beginning of the 15<sup>th</sup> century of the Muslim calendar – a period that according to Muslim prophesies was to herald a golden age for Islam. The Iranian revolution



in the same decade was to many Muslims an indication of this imminent glory as well as an inspiration for their own revivalism.

The global resurgence notwithstanding, Malaysia's religious resurgence was rooted strongly within domestic circumstances, most notably the need for identity within an atmosphere of Malay progress provided by the NEP. The revival was thus more than just spiritual and religious – it had political meaning. This is given away by the nature of the movements that led the revivalism – *Darul Arqam*, *Jemaat Tabligh*, *Suara Islam* and ABIM – none of which were purely detached from the political fabric of the nation. Launched in 1971 and led by the charismatic Anwar Ibrahim, ABIM was the most successful group in terms of membership<sup>102</sup> and ideological appeal. It articulated a critique on all matters of public policy and proposed Islam as an economic, political and social blueprint for Malaysian society. ABIM's ideology spread to middle class Malays who began to question if the regime's developmental formulas were in accordance with Islamic values and principles. The group was critical of the narrowness of existing Malay politics and nationalism, calling instead for the establishment of *shariah* law within an Islamic state in Malaysia as a viable solution to structural

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<sup>102</sup> Forty thousand during Anwar's leadership. Shanti Nair, *Islam in Malaysian Foreign Policy*, pp 29. *Arqam* had 10,000 members. See David Camaroux, "State Responses to Islamic Resurgence in Malaysia, Accommodation, Co-option and Confrontation," in *Asian Survey*, September 1996

Malay disadvantages and the ills of communalism. ABIM's most significant contribution was that it spread the call for an Islamic state beyond PAS and to the middle class Malay.

Resurgent Islam thus presented an increasingly serious challenge both to UMNO and the regime.<sup>103</sup> The pre-Mahathir regimes had responded by condemning some and co-opting other forces of Islamic revivalism. In the 1970s for instance, religious bureaucracies and government bodies aimed at co-opting the revivalism movements and outlawing those that could not be brought in tow were created.<sup>104</sup> But there were signs the regime was losing the battle. In the 1978 general elections, PAS, through tacit alliances with ABIM and other dakwah movements, managed to secure one third of all Malay votes cast,<sup>105</sup> causing alarm within UMNO and unease within the regime.

The Islam which the Mahathir regime inherited thus required fresh and innovative responses if the regime was to preserve its hegemony and simultaneously advance its development agenda. This was an Islam that had

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<sup>103</sup> Mohammed Abu Bakar, "Islamic Revivalism and the Political Process in Malaysia, *Asian Survey*, Vol 21, No 10, October 1981, Nagata Judith, "Religious Ideology and Social Change :Islamic Revival in Malaysia", *Pacific Affairs*, Fall 1980 and Chandra Muzafar, *Islamic Resurgence in Malaysia*, PJ: Penerbit Fajar, 1987 make this point.

<sup>104</sup> The Islamic Missionary Movement and National Fatwa Council. Both were located within the Prime Minister's Department. *Ibid.*

<sup>105</sup> Shanti Nair, *Islam in Malaysian Foreign Policy*, pp 32.

begun to seriously challenge the regime's vision of economic progress and secular modernization. It had begun to threaten the legitimacy of the regime's patronage formula. This Islam would not forebear the massive involvement of UMNO in business. It would not tolerate the regime's foreign, especially western alliances – so crucial to so many of UMNO's business concerns. It would not be disposed to the regime's systematic weakening of institutions to concentrate power in the hands of the executive. It would be prepared to challenge the authoritarian nature of the regime, even if only to allow itself more political space. Most importantly, while itself advocating a theocratic state, this revived brand of Islam would not hesitate to use the electoral process to displace the regime.

Islam thus became a problem that was more fundamental and real for the Mahathir regime than it was for the previous eras. Fundamental because it caused the regime's development formula to encounter resistance from the very group in whose name much of the ideology of the regime's economic re-distribution policies were rooted, namely the ethnic Malays. It was a real problem because it increasingly declared the Mahathir agenda as un-Islamic and combined with the organized and structured apparatus of PAS and the revivalist movements, had the capacity to displace the regime through elections. The

potential of such a scenario alone had the capacity of undermining the confidence of foreign interests – something absolutely vital to the regime’s development agenda, as alluded to in the preceding section. That the Mahathir regime had a real and present problem with regards to Islam was becoming crystal clear – it was during the Mahathir era that PAS captured the oil rich Malay majority state of Terengganu, in addition to making a clean sweep in the poorest Kelantan and making inroads into the premier’s home state of Kedah.<sup>106</sup> It was also during Mahathir’s time that PAS, by winning enough seats, took over the leadership of the opposition in Parliament from the Chinese based DAP.<sup>107</sup> It was further during the Mahathir era that UMNO, for the first time, received less than half the Malay vote in a General Election,<sup>108</sup> removing the main source of its legitimacy hitherto.

Undercutting PAS was becoming less of a solution and more of a problem because it engendered the disquiet of the domestic non-Muslim population – a

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<sup>106</sup> In the 1999 General Elections, the BN lost all but one Parliamentary seat in Kelantan, all of Terengganu’s eight seats and 8 out of 15 in Kedah. At the State level, the BN won two of the 43 seats in Kelantan, and 28 of the 32 seats in Terengganu. It retained a simple majority in Kedah. See Khoo Boo Teik, “Unfinished Crisis: Malaysian Politics in 1999,” in *Southeast Asian Affairs 2000*, pp 179-180.

<sup>107</sup> The 1999 General Elections saw the opposition make unprecedented gains, but PAS was the biggest overall winner. Having only 7 seats in 1990, and 8 in 1995, it obtained 27 in 1999 – giving it the right to appoint the Parliamentary opposition leader for the first time in history. The DAP which held 9 seats in 1995, won only ten in 1999. *Ibid.*

<sup>108</sup> ISEAS, *Regional Outlook: Southeast Asia 2001-2002*, Singapore: ISEAS, 2001, pp. 10. The reference is to the 1999 Elections.

group whose support was vital since the Malays were becoming almost evenly split between PAS and UMNO. A move by a coalition of non-Muslim religious groups, the MCCBCHS, to petition the regime against the imposition of *Shariah* in Malaysia in 1990<sup>109</sup> illustrated the rapidly shrinking limits of such undercutting. The regime's tiger ride had become extremely complex.

Mahathir's responses were meant to match the complexity of the problem. The regime began with a series of government-sponsored institutional initiatives aimed at showing its commitment to the "true" Islamic cause. The regime thus established an International Islamic University (1983), an Islamic Development Foundation (1983), an Islamic Bank (1984) and an Islamic Insurance company (1985). It further launched the inculcation of Islamic values in the administration (1983) and the application of Islamic Legal Jurisdiction for Muslims – a move which saw the establishment of Islamic court infrastructure side-by-side civil law all over the country. Such achievements were used by the regime to undercut PAS – by showcasing its "true commitment" to Islam in a multi-ethnic society as opposed to the "Islamic state rhetoric" of the opposition party – a concept

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<sup>109</sup> David Camroux, *Looking East and Inwards*, pp 20. The coalition collected more than a million signatures for its petition.

criticized by the regime as being unsuitable for the multi-cultural society that Malaysia possessed.

Complimenting these institutional initiatives was the ever growing and all-powerful religious bureaucracy of the Prime Minister's office. Having grown from a staff of eight when first established in the late 1970s to more than 600<sup>110</sup> under Mahathir, the Religious Affairs Department affected control of virtually all religious activities perceived as a challenge to the regime's authority. The department did this through a variety of instruments, ranging from the tedious – writing Friday sermons for mosques throughout the country, to draconian – arresting, jailing and rehabilitating “deviationist” preachers. Its functions also included propagating – churning out radio and television programs, licensing – certifying which preachers were allowed to conduct prayers and financing – paying salaries to preachers. It even had authority over Malaysian Muslim students abroad, conducting mandatory orientation sessions and monitoring activities of those who were in Islamic countries.

To top it all up, in 1982, Mahathir dealt a near deathblow to the *Dakwah* movement by securing the defection of Anwar Ibrahim from ABIM. In what

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<sup>110</sup> See Hussin Mutalib, *Islam and Ethnicity in Malay Politics*, Singapore: Oxford University Press, 1990. Pp 143 and Halim Salleh, “Development and the Politics of Social Stability in Malaysia,” *Southeast Asian Affairs*, 1999, pp 198.

could only be described as a ironic twist, Anwar, by virtue of his appointment as Minister for Religious Affairs in the Prime Minister's Department was now in charge of stemming the tide which he himself help create. ABIM was never able to recover from its loss of Anwar, but its emasculation was nothing compared to the fate of the other movements. The most radical of the *Dakwah* movements, *Al Arqam* and 49 other "deviationist groups" were banned, their leaders arrested, banished or rehabilitated by Anwar's department. Arqam's 44 communes, 237 schools and \$300 million worth of financial assets were dismantled and its supreme leader Ashaari appeared on television to recant.<sup>111</sup> The regime's commitment to quash radical groups is perhaps best illustrated by a commando raid on the radical *Memali* group, which resulted in the loss of some 20 lives including that of the group's leaders.<sup>112</sup> The regime even went as far as obtaining an Asean ban on *Arqam*<sup>113</sup> given its presence in 16 countries world wide including Thailand, Singapore and Brunei.<sup>114</sup> In 1996, the regime amended the

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<sup>111</sup> See David Camroux, "State Responses to Islamic Resurgence in Malaysia: Accommodation, Co-option and Confrontation," in *Asian Survey*, September 1996.

<sup>112</sup> *The New Straits Times*, November 20, 1985 provides the government version of the siege and attack by police commandos on the village of Memali in Kedah. The group led by one Ibrahim Libya, with ties to PAS was said to have fortified his house with weapons and was killed with 19 of his followers in the attack. PAS' version of the incident rests on the notion that the group could have been subdued without use of lethal force. See for instance *Harakah Daily*, May 21, 2004.

<sup>113</sup> Singapore, Brunei and Indonesia went along with this initiative by Malaysia at the July 1994 Asean Meeting in Bangkok. See David Camaroux, "State Responses to Islamic Resurgence."

<sup>114</sup> See John Esposito and John Voll, *Islam and Democracy*, pp 129.

constitution to make the practice of any Islamic order other than the Sunni sect prosecutable.<sup>115</sup>

But the regime's most important and innovative solution lay in the promotion of a brand of Islam that was suited to the regime's goals of economic modernization – a blend of “progressive” and “moderate” Islam that is described by some as “Mahathir's Islam,”<sup>116</sup> and by others as “secularized, sanitized and toothless” form of Islam.<sup>117</sup>

Mahathir's interpretation of Islam as a modern religion took issue with those who had other interpretations.

“Why then are the Muslims of today backwards? Why are they weak and oppressed...Why are they no longer the masters of themselves? The only possible reason...lies in the numerous interpretations of the Quran...(by those) who are misleading, lacking in knowledge and out of date.”<sup>118</sup>

Mahathir argued that all was well with Islam when these “numerous” interpretations did not exist. “Before the interpretations and teaching of these

<sup>115</sup> Article 3(1) of the Constitution was amended to make *Sunnah Waljammah* of Sunni sect the official sect of Malaysia. The legislation accepted the profession of *Shiism* as a birthright, but outlawed conversion. See Shanti Nair, *Islam in Malaysian Foreign Policy*, pp. 154.

<sup>116</sup> Khoo Boo Teik gave birth to the term. See *Paradoxes of Mahathirism*, pp 163.

<sup>117</sup> See Halim Salleh, “Development and the Politics of Stability in Malaysia,” pp 198.

<sup>118</sup> Mahathir Mohamad, Speech at the Opening of the 4<sup>th</sup> International Seminar on the Quran, at Kuala Lumpur on February 2, 1994.



'ulamas' (interpreters), the Muslims were the most successful people in the world."<sup>119</sup>

According to Mahathir, the world of Islam had a glorious past defined by success in the material, intellectual, cultural and scientific fields, but now Muslims were "the most backward people in all the arts and sciences."<sup>120</sup> This poor state of affairs could neither be blamed on Islam because "Islam wants its followers to be ...progressive"<sup>121</sup> nor on non-Muslims, but on Muslims themselves who were "so fond of devising methods which only obstruct and weaken us."<sup>122</sup> He dismissed the Islamic resurgence by suggesting: "were there a true Islamic resurgence, Muslims would be dominant."<sup>123</sup> He argued that they clearly were not dominant, "the current trends show that Muslim society is heading towards an aimless future,"<sup>124</sup> adding that "time may be running out on us as it has run out on a lot of Muslims." He lamented that there was "not a

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<sup>119</sup> Mahathir Mohamad, Speech at the Opening of the International Institute of Islamic Thought and Civilization, ISTAC, at Kuala Lumpur on June 3, 1993.

<sup>120</sup> Mahathir Mohamad, Speech at the International Islamic Symposium, Kuala Lumpur, March 5, 1986.

<sup>121</sup> Mahathir Mohamad, Speech at Seminar on Developing Islamic Financial Instruments, KL, April 28, 1986.

<sup>122</sup> *Ibid.*

<sup>123</sup> Mahathir Mohamad, Speech at the 4<sup>th</sup> Regional Islamic Dakwah Council of Southeast Asia and the Pacific (RISEAP) General Assembly, Kuala Lumpur, December 8<sup>th</sup> 1986.

<sup>124</sup> Mahathir Mohamad, Speech at the 3<sup>rd</sup> International Seminar on Islamic Thought, Kuala Lumpur, July 26, 1984.

single Muslim nation which was at the leading edge of knowledge or technology."<sup>125</sup> To remedy such ailments, Mahathir's Islam preached "discipline, excellence, rational and scientific approach to overcoming problems, and values which were moderate and consistent with the needs of a modernizing and industrializing plural society."<sup>126</sup>

Mahathir was not about to leave the propagation of this correctly interpreted Islam to others.

"It is no longer possible to confine the interpretation of the teaching of the Quran to the religious scholars only. The problems of today...(and) the progress in medical science, genetics, space explorations, commerce and industry requires deep knowledge in these subjects in order to relate to the teachings of the Quran."<sup>127</sup>

But for Mahathir to be able to promote, with credibility and wide appeal, his version of Islam, he needed larger than life credentials for himself and his regime. The premier undoubtedly had the credentials of a Malay nationalist given all that he had advocated for the Malay race in his entire political life. He had, after all, discovered the Malay "dilemma" and to a large extent provided

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<sup>125</sup> Mahathir Mohamad, Speech at 10<sup>th</sup> Anniversary Celebrations of the International Islamic University, at Petaling Jaya on August 24, 1993.

<sup>126</sup> Malaysia: *Mid-Term Review of the Fourth Malaysia Plan 1981-1985*, KL: Government Printers, 1984 pp 28, Para 79, pp 27, Para 77.

<sup>127</sup> Mahathir Mohamad, Speech at the Opening of the 4<sup>th</sup> International Seminar on the Quran, at Kuala Lumpur on February 2, 1994.

the political solutions. He now needed the added credentials of an Islamic statesman and for that he set out to discover the Muslim dilemma<sup>128</sup> – the *international* Muslim dilemma - and suggest appropriate solutions. It is in such context that Mahathir came up with the most innovative response to the domestic Islamic problem - the effective and comprehensive use of foreign policy. MFP would act as an instrument for Mahathir's aspirations to become a statesman of the Muslim world and this in turn would help provide the Islamic credentials he sought at home.

The logic of using foreign policy for such an aspiration was innovative yet straight forward. Islam was global in nature and hence provided MFP a myriad of international issues to utilize. Contemporary world politics was replete with examples of failed Islamic states. Islamic organizations such as the OIC, League of Arab States, and even OPEC were viewed as being unable to get their act together. The Islamic world had a notoriously negative image – it was associated with poverty, backwardness and bloody borders. In the midst of such debilitations, Mahathir stood tall as the leader of a modernizing and globalizing Muslim state – a reality that accorded him the credibility of speaking from a

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<sup>128</sup> See Section 2.4.2 in Chapter 1 for the argument that traces Mahathir's ideological transformation from Malay concerns to Muslim Malay concerns.

“higher pedestal.” This pedestal was provided by the miracle of Mahathir’s Malaysia, which was as just as clear as the reality of a world of Islam mired in conflict, dictatorships and terrorism. Malaysia’s success ensured that the failed Islamic world take Mahathir seriously and accord him the respect of an Islamic statesman. And if the Islamic world took Mahathir seriously, there was no reason why the Muslim Malays should not.

The inevitable outcome of such a strategy was the development of a nexus between Islam and MFP. While the actual MFP outputs and their underlying motives are discussed in Chapter 6, the remaining section outlines briefly, the two macro effects of Islam on the general orientation of MFP.

First, MFP increasingly became a platform that was deployed by Mahathir to help earn the acclaim of an Islamic statesman. Mahathir constantly and vociferously voiced concerns about selective issues confronting the Muslim world using the MFP platform. MFP in turn sought to carve out a leadership niche for itself and the country at international Islamic organizations such as the OIC. It further sought to raise “Islamic issues” at a number of Third World organizations such as the South-South Cooperation and NAM.

Second, Islamic rhetoric and posturing became a steady component of the policy under the Mahathir regime. The rhetoric was both brilliant and abundant,

causing some serious researchers to conclude that Islam actually became a cornerstone of MFP under Mahathir.<sup>129</sup> As will be shown in the detailed discussion of such rhetoric and posturing in Chapter 6, there is little evidence to support such a notion. Malaysia neither had the resources nor intentions to do anything real and meaningful in relation to the selected international Islamic issues that were the staple of Mahathir's MFP rhetoric. On the other hand, as will be detailed in Chapter 6, evidence is plentiful that MFP actions many a time went in the opposite direction of its Islamic rhetoric. Even the rhetoric itself was neither meant for the consumption of the Islamic world nor to seriously address the issues that were being raised. Its primary concern was with securing a status for the regime, and the ultimate target was the domestic Islamic constituency.

#### 4.0 CONCLUSION

This chapter has attempted to explain the domestic factors that have influenced the shape, substance, rhetoric and direction of MFP during the Mahathir era in definitive ways. The general proposition is that MFP was guided by three major overriding domestic objectives – integration of Malaysia's ethnically cleavaged society by economic means, national development, and

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<sup>129</sup> Shanti Nair's *Islam in Malaysian Foreign Policy* has, as its main hypothesis such a contention.

maintenance and stability of the Mahathir regime. Each of these factors, either acting alone or in concert with the others served as inputs for MFP in the Mahathir era.

In the area of ethnic integration, the faltering NEP within a shrinking economic environment formed the impetus for foreign policy measures designed to rectify such a problem. These measures collectively caused a shift in the general direction of MFP by making it turn away from being pro-British and to Look East instead. These measures also caused MFP to become more economic in orientation and allowed security and defense to take a back seat. A smaller but no less significant outcome was that these measures allowed for the undertaking of risky covert actions.

In the area of regime stability and maintenance, the impetus for foreign policy measures came largely from the need for political patronage from within UMNO and regime circles. Foreign policy measures were needed to complement domestic tools, which had become identifiable with such patronage, namely privatization, heavy industrialization and the involvement of UMNO in business. These measures, when taken as a whole, caused shifts in the broad direction of MFP namely the abandonment of the Look East and Buy British Last policies in favor of just about any nation willing to invest in and open its markets

for reverse investments - thus giving MFP a distinct commercial and investment-attracting orientation.

The two economic crises during the tenure of the regime were the impetus for two simultaneous political crises and thus had serious consequences for regime stability. On both occasions, the regime resorted to foreign policy measures, which in turn caused the policy to undergo fundamental shifts. The 1986 crisis, which took the form of recession, resulted in a policy that threw open its doors wider to foreign funds, technology, partnerships and expertise. But the 1997 financial crises, caused in large part by the exodus of foreign funds and confidence, saw the policy take on isolationist trends, conduct anti-Western rhetoric, turn to regionalism, and back-track to rely heavily on the Look East Policy.

In the area of national development, foreign policy was a significant component of the regime's modernization formula. The regime used MFP to facilitate the nation's domestic development policies namely import substitution, heavy industries, Vision 2020 and the multimedia super corridor. The effect was a steady transformation of the nature of Malaysia's external relations to one that could be termed developmental diplomacy.

To ensure the success of the regime's national development formula, it used MFP to hold at bay one of the formula's most fundamental challenges – resurgent Islam. MFP increasingly became a platform for Mahathir to earn the acclaim of an Islamic statesman – credentials which were vital for the propagation of his version of progressive Islam at home. MFP thus underwent a shift at the rhetoric level brought about by the regime's craftful inclusion of select international Islamic issues into its foreign policy dialogue at international forums.

MFP under Mahathir thus draws out clearly, the relevance of domestic factors in understanding foreign policy behavior and rhetoric of the era. The following chapter examines the external factors that had a bearing on the shape, substance and direction of MFP for the period of study of this thesis.



## **CHAPTER 4: THE SOURCES OF MALAYSIAN FOREIGN POLICY 1981-2003: EXTERNAL FACTORS**

### **4.1 INTRODUCTION**

This chapter outlines the external factors that have influenced the shape, substance and direction of MFP during the Mahathir era. External factors are defined as behavior occurring abroad that conditions or otherwise influences foreign policy choices. The Mahathir era coincided with two major global and regional developments, first, the demise of the cold war and the related collapse of the communist bloc; and second, the relentless growth of globalization; - making these developments the backdrop of external factors that had an impact on MFP.

The principle propositions here are four. First that the end of the bipolar world as shaped by the cold war meant that MFP had to abandon or otherwise loosen its reliance on the concepts of equidistance, equipromixity and neutrality viz a viz the USA-Soviet Union rivalry and East-West divide. This change in the international power structure further meant that MFP had to come to grips with the dominance of the USA in global affairs. A similar coming to terms with the global eminence of the West as well as a re-examination of Malaysia's role in Cold War era international organizations such as NAM was required. Second,

the conversion of a score of former command economies into open market economies after the collapse of the communist bloc created trade and investment opportunities that took prominence within MFP priorities. Third, sensing that globalization was proceeding relentlessly, accelerating the integration of the world's economy for goods, services and capital, MFP sought to benefit from the phenomenon by charting appropriate policy directions in particular membership of WTO. And fourth, the "negative" aspects of globalization and the perception that the 1997 financial crisis was caused by globalization caused MFP to experiment with limited isolationism and seek refuge in regional groups, in particular Asean.

There is a need to include, in this chapter, the behavior of select other nations as external factors of MFP. In this regard, the conduct of Malaysia's immediate neighbor and economic rival, Singapore; the region's economic powerhouse and Malaysia's largest investor, Japan; and Asia's military super power and emigrant homeland of a third of Malaysia's population, China; are considered most important in warranting an examination as regards their role in influencing MFP.

The main propositions with regard to these three nations are as follows. First, the behavior of Singapore and China affected the security, defense and

threat perceptions of MFP. Singapore became the number one short-term threat and China the number one long term one. Second Japan replaced Britain as Malaysia's number one bilateral partner. Third, all three had an impact on the commerce and developmental diplomacy aspects of MFP.

This chapter is divided into four sections. The first looks at the impact of the end of the cold war and related factors on MFP. The second examines the influence of the growth of globalization on MFP and the third analyses the impact of Singapore, Japan and China on MFP.

#### 4.2 THE END OF THE COLD WAR.

Having gained independence at a time when the Cold War was well underway, Malaysia's formative foreign policy orientation was decidedly anti-Communist and pro-West. Premier Tunku defended his "rabid anti-communism"<sup>1</sup> foreign policy by saying, "There can be no half-way policy. Either we go all out and sink with Democracy, or with Communism if we support the Communists<sup>2</sup>. The cornerstone of the nation's defense and security was AMDA of 1957 whereby Malaysia's former colonial power, together with its allies

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<sup>1</sup> Hari Singh uses the term to describe Tunku's FP from 1957 -1962. See "Malaysia and the Cold War," in *Diplomacy and Statecraft*, Vol 6, No. 2 1995.

<sup>2</sup> *The Straits Times*, Nov 2, 1962.

Australia and New Zealand, promised to provide assistance in the event of an armed attack<sup>3</sup> - presumed to most likely come from communist expansionism in Southeast Asia. Given that the AMDA parties were also members of the USA sponsored SEATO, Malaysia had indirectly placed itself in the ambit of the American containment system in the region. The justification for such a stance was provided by Malaya's long and bitter internal war with the communists in the aftermath of the Japanese retreat and the large unassimilated minority Chinese who were seen as being sympathetic to communist China.

Accordingly, post-independence MFP treated non-alignment with nothing short of contempt. Tunku argued that:

"There is no question whatsoever of our adopting a neutral policy while Malaya is at war with the Communists...let me tell you that there are no such things as local communists. Communism is an international organization which aims at world domination..."<sup>4</sup>

And,

"Between right and wrong, there is no neutrality and the Federation of Malaya has no desire to share the fate of Humpty Dumpty who sat on the Wall."<sup>5</sup>

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<sup>3</sup> Article IV of Appendix 4 of the *Agreement between the Government of the United Kingdom and great Britain and Northern Ireland and the Government of the Federation of Malaya on External Defense and Mutual Assistance, Signed at Kuala Lumpur, on 12 October 1957*, KL: Government Printer, 1957

<sup>4</sup> *The Straits Times*, December 7, 1958.

<sup>5</sup> *Ibid*, August 31, 1960.

Malaysia's anti-communism policy further translated into wholehearted support for the USA and South Vietnam in the Indochina war, high coincidence in voting patterns with the USA in the UN General Assembly, non-recognition of China, and not having diplomatic relations with certain communist nations.<sup>6</sup> The Tunku dismissed the Soviet Union's "peaceful co-existence" as "a fraud designed to reduce into a state of non-existence those trapped victims."<sup>7</sup>

This hard anti-communist stance, however, began to soften within a decade, predicated on factors such as the need for maneuver given the constraints of bipolar politics, the absence of a credible external threat from the communist powers, geographical proximity to communist Indochina, regional and bilateral complications such as the sensitivities of the non-aligned neighboring state of Indonesia, the US-SU détente, the Sino—Soviet conflict and domestic considerations such as the regime's need for political support of the local Chinese. The two most important factors, however, that triggered MFP's movement towards the neutral center of the East West divide were Britain's

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<sup>6</sup> Malaysia supported the USA in Vietnam, Cuban Missile Crisis, Gulf of Tonkin and the Berlin Blockade. Tunku paid an official visit to South Vietnam in 1958 to express solidarity with President Diem who returned the visit in 1960. Malaysia further espoused the "two-China" policy at the United Nations. During the India-China war, Malaysia sent \$1 million to India to help it ward off Chinese aggression. See Saravanamuttu, *The Dilemma of Independence*, Chapter 2., and Hari Singh "Malaysia and the Cold War," pp 513.

<sup>7</sup> *Parliamentary Debates*, September 29, 1960. Quoted in Hari Singh, "Malaysia and the Cold War," pp. 515.

decision, in 1966, to trim its military presence in Malaysia beginning 1971 and the Indonesian armed attack<sup>8</sup> on Malaysia, *Konfrontasi*, in 1965.<sup>9</sup>

What began as the replacement of official vituperation with conciliatory moves such as the recognition of China and normalized relations with the Soviet Union in 1967 began to take the form of goodwill missions to hitherto ignored non-aligned nations. Stronger support for the ideals of the United Nations, membership of G-77 at UNCTAD and rapprochement with communist states followed. More importantly, however, MFP began paying attention to regional collective security arrangements. Malaysia had, together with Thailand and Philippines, initiated ASA as a regional anti-communist club, but NAM co-founder Indonesia teamed up with Singapore in pushing for a grouping with a much broader focus. ASEAN was thus created in 1967. The declared goals of the bloc, amongst others, were: to accelerate economic growth within the area, to promote regional peace and stability and to improve trade. Asean's charter also included a clause on foreign bases:

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<sup>8</sup> The hostilities lasted for three years and consisted mainly of Indonesian sea and air incursions into Malaysia. 1583 Indonesian soldiers were killed, wounded or captured. Malaysia and its Commonwealth allies saw 268 soldiers dead or wounded. 53 Malaysian civilians lost their lives as well. See Zakaria Ahmad, (ed.) *Government and Politics of Malaysia*, Singapore: Oxford University Press, 1987, pp. 378

<sup>9</sup> Malaysia took the conflict to the UN, calling on the body to condemn Indonesia, but given its pro-West stand and the resulting reputation amongst Afro-Asian states as a neo-colony of the West, it faced total isolation at the international forum. Beginning 1964, Malaysia began a diplomatic flurry to woo African states. See Hari Singh, "Malaysia and the Cold War," pp. 524.

“affirming that all foreign bases are temporary and remain only with the expressed concurrence of the countries concerned and are no intended to be used directly or indirectly to subvert the national independence and freedom of states in the area or prejudice the orderly process of their national development.”<sup>10</sup>

The general thrust of MFP thus began to undergo an overhaul in the 1970s. In this decade, Malaysia officially joined NAM,<sup>11</sup> identified fully MFP's goals with the principles of non-alignment and initiated a global campaign for a neutralized Asean – ZOPFAN. Equidistance (later equi-proximity) vis-à-vis the superpowers became the foundation of MFP. Malaysia adopted the one China policy,<sup>12</sup> voted in the UN to expel Taiwan from the world body, and recognized the communist states of Mongolia, North Vietnam, North Korea and East Germany. Malaysia's commitment to East-West neutrality showed in 1975 when it quickly recognized the new communist governments of South Vietnam (National Liberation Front) and Cambodia (Khmer Rouge). Foreign Minister Ghazalie made clear that Malaysia no longer considered communist expansion a

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<sup>10</sup> *The Straits Times*, August 9, 1967.

<sup>11</sup> The NAM conference in Lusaka was Malaysia's first.

<sup>12</sup> Razak's trip to China in May 1974 was the first high-level contact of the two governments since Malaya's independence in 1957. The trip resulted in an exchange of ambassadors, termination of diplomatic ties with Taiwan, and China's support for ZOPFAN.

threat by saying that the “domino theory” was, in reality, “the great domino fallacy.”<sup>13</sup>

When the Mahathir regime assumed power in 1981, the East–West divide had been overshadowed by the North-South divide. The global oil crisis, the Latin American debt crisis, NIEO calls by UNCTAD, falling commodity prices and worsening wealth disparities between the developed and developing nations undoubtedly became MFP’s concerns with the international system. Mahathir took a higher profile on North-South issues than any of his predecessors. In 1986 he moved for the setting up of a South-South Commission<sup>14</sup> who’s first Secretary General was his former foreign minister. Four years prior to this, in his maiden speech as head of state at the UN, Mahathir had announced his Antarctica Policy – which called for the region to be declared the common heritage of mankind – arguing then, and again in the 1984 and 1986 UNGAs, that Antarctica should not be the preserve of a few countries and major powers via the Antarctica Treaties. Mahathir took a particularly strong Third World line on environmental issues, arguing that the developed countries were bent on

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<sup>13</sup> *New Straits Times*, May 7 and 8, 1975.

<sup>14</sup> The idea was proposed in 1985 by the Second South-South Dialogue, which was held in Kuala Lumpur and chaired by Mahathir. The Commission was set up the following year with Julius Nyerere of Tanzania as its president and Ghazali Shafie as Secretary General. See Johan Saravanamuttu, “Malaysia’s Foreign Policy in the Mathathir Period, 1981-1995: An Iconoclast Come to Rule, in *Asian Journal of Political Science*, Vol 4 No.1 (June 1996), pp 6.



blaming environmental problems on the less developed South, while at the same time hindering the South's ability to foster sustainable development. Mahathir argued that the North had to be responsible for issues such as carbon monoxide emissions and not shift the blame onto disappearing tropical forests – a stance adopted by the 1992 Rio Earth Summit.<sup>15</sup> By the end of his first decade in power, Mahathir's challenging the West on virtually everything from economics to morality had earned him the title of the "new voice of the Third World,"<sup>16</sup> in much the same way as Tunku's anti-communist and pro-Western orientation had earned him the label of "an English gentleman."

By the time the erstwhile Soviet Union collapsed, COMECON disintegrated, and that the Berlin Wall came down, official vituperation of communism had become a thing of so distant a past, that it allowed the Mahathir regime a rational and calculated response: how to tap into hitherto closed markets and economies. Together with Russia, some eleven new born or re-born states – the CIS states and closer to home Vietnam, Cambodia and Laos – were seen as trade and investment opportunities by the regime. MFP had to chart out

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<sup>15</sup> *Far Eastern Economic Review*, August 20, 1992. The periodical opines that this was in recognition of Mahathir's stance.

<sup>16</sup> The cover story of *Far Eastern Economic Review*, August 20, 1992 described Mahathir as "heir apparent to an earlier generation of Third World spokesmen who challenged Western leaders on everything from economics to morality."

the relevant courses – ranging from capitalizing on Islamic brotherhood with many of CIS states that had sizeable Muslim populations, building third world solidarity with those that did not, and advocating the Asean spirit of inclusiveness for those countries nearer to home – all with the objective of building diplomatic inroads into these new frontiers. While the actual foreign policy measures taken are discussed in chapters 5 and 6, the following section outlines the impact the end of the Cold War had on the general orientation of MFP.

First, the demise of the cold war translated into an automatic death for the concepts of equi-proximity and neutrality. It also ended the business of playing up one bloc against the other for benefits as Mahathir contended at NAM conference in the post-Cold War era:

“We did not want to be aligned with any of the blocs... In this we felt we could succeed because we were in many instances being wooed by both East and West... Both were ready to extend help, give aid and loans and gifts etc... We were, I believe a little bit spoilt because of the courting.”<sup>17</sup>

The post-Cold War world was unipolar, although the regime would have preferred it to be multipolar.<sup>18</sup> Freed from the shackles of neutrality, MFP could

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<sup>17</sup> Mahathir’s speech at the 12<sup>th</sup> Conference of the Heads of State of the Non-Aligned Countries at Durban, South Africa, September 2, 1998

<sup>18</sup> Saravanamuttu argues that the various papers written by the regime’s think-tank ISIS suggest that multipolarity was the preferred post-Cold War scenario. See “Mahathir’s Foreign Policy,” pp.8.

now be as close to or as distant from the USA and the West without having to overly justify policy choices or worry about the need to balance them. It was now able to come to terms with the international reality of global political dominance and eminence of USA and the West respectively. The Mahathir regime thus went along with Resolution 678 sanctioning military force against Iraq in the 1991 Gulf War, even when an abstention would have been the more logical choice - given the considerable anti-war sentiments at home and heavy criticism by PAS whose main argument was rooted in the provocative view that the vote was anti-Islamic. In the early 1990s, Malaysia offered repair and replenishment facilities at domestic naval bases – a move which facilitated the continued deployment of U.S. strategic and conventional power in the region – something unthinkable in the Cold War era.<sup>19</sup> In the USA's fight against terrorism, Malaysia offered the super power assistance befitting an ally – ranging from intelligence cooperation and a crackdown on the local Al-Qaeda links.<sup>20</sup>

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<sup>19</sup> "Equipromixity" would have required the extension of similar facilities to the Soviets. "Equidistance" would have disallowed both super-powers from access to such facilities. Throughout the Cold War, Malaysia was, in line with its neutrality stance, critical of Clark and Subic (US air and naval bases in the Philippines) and Cam Ranh and Danang (Soviet bases in Vietnam).

<sup>20</sup> The FBI and its Malaysian counterpart acknowledged that the September 11 attacks were planned in Malaysia. Malaysian authorities detained 70 suspects belonging to the Indonesian chapter of Al-Qaeda but operating on Malaysian soil, including the notorious Malaysian Army Captain and US trained chemical engineer Yazid Sufaat. Cooperation between Malaysian authorities and the US ones is said to have produced information such as planned attacks by the Indonesian chapter on US facilities in Singapore. See *Asia Times*, Sept 6, 2002 and *The Associated Press* report dated Jan 28, 2004 on *The Fox News Channel* website Foxnews.com.

Yet there was unease that the USA would extract unilateral advantage from unipolarity and the improved bilateral relations. The USA had a penchant for linking foreign relations to human rights, democracy and environmental issues, and Malaysia had considerable problems with regard to each of these issues.<sup>21</sup> MFP saw regionalism as an effective tool in balancing the potential interventionist power of the USA. The ARF, which came into existence in 1994 provided Malaysia with the best of both worlds – a voice in the security agenda of the region and the involvement of the super and regional powers to guarantee the peace.<sup>22</sup> ARF thus became the cornerstone of the nation's security in the post-Cold War era.

The regime's position on NAM was also affected. But instead of abandoning the movement that had lost its *raison d'être*, the regime chose to try to steer the grouping into a new role – as an instrument of the South. This was evident at the 1992 NAM conference in Jakarta where Malaysia moved a resolution calling for the expulsion of the rump state of Yugoslavia from the UN.

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<sup>21</sup> Malaysia's detention without trial laws, curtailment of individual liberties, and deforestation activities are examples of issues that can be considered problematic.

<sup>22</sup> The ARF's membership stands at 22. This includes the original members: Australia, Brunei, Canada, China, European Union, Japan, Laos, Malaysia, New Zealand, PNG, Philippines, Republic of Korea, Russia, Singapore, Thailand, USA and Vietnam. Cambodia, India, Burma and Mongolia were subsequently admitted. The ARF proposed the provision of regional security and stability in the region through a three-stage evolution process. The first stage is the promotion of CBMs, the second is the development of preventive diplomacy mechanisms and the final stage is the development of Conflict Resolution Mechanisms.

The regime saw NAM as an effective forum for Southern nations to air their grievances on issues affecting the Third World. Mahathir thus argued:

The relevance of being non-aligned in a unipolar world may be questioned. But there are any number of reasons for us to stay together...The Non-Aligned movement is therefore worth saving and rejuvenating... NAM is still a useful forum and organization for the countries unwilling to be mere clients of the first world."<sup>23</sup>

But the most important effect of the end of the Cold War was that it provided an additional impetus MFP's commercial emphasis and focus. The end of the Cold War thus saw MITI, Matrade and MIDA take up the task of gaining access to these new markets both for Malaysian exports and new investment opportunities for its entrepreneurs. In some of the CIS countries and regime used the call of Islamic brotherhood and Southern solidarity to get these new states to open their doors, while closer at home, the *modus operandi* was via Asean. MFP pursued, aggressively and successfully, the agenda of allowing Vietnam, Cambodia, and Laos to take up membership of the regional body. The expectation was that since these states themselves desired Asean membership for international legitimacy and economic ties with the developed world (via Asean's relations with the EU for instance) they would repay Malaysia by according it investment and business preferences.

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<sup>23</sup> Mahathir's speech at the 12<sup>th</sup> Conference of the Heads of State of the Non-Aligned Countries.

### 4.3 GLOBALIZATION AND MFP

No single issue has agonized the Mahathir regime more than globalization.<sup>24</sup> So vacillating has been the regime's relationship with this process that it has prompted some to argue that Malaysia has embraced, redefined *and* rejected globalization. Bridget Welsh<sup>25</sup> portrays the vacillating by advancing a swimmer/surfer analogy, arguing that Malaysia first decided to swim in the deep ocean – embrace globalization, then preferred the Asian sea – prioritized regional alliances, then struggled in the surf – sought to redefine globalization and eventually decided to get out of the water by rejecting globalization.

No state has attacked globalization as pointedly and publicly as the Mahathir regime has:

“Globalization, deregulation, liberalization, borderless world – these are the fundamentals of the new theology. The high priests are the people with capital, unlimited capital. Their handmaidens are the great writers, journalists and economists, the media practitioners who propagate the religion with fervor. And like religious fanatics they tolerate no recalcitrance<sup>26</sup>.”

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<sup>24</sup> This study found that some 250 Mahathir's speeches – one in every ten made in his political career - touched on the issue of globalization.

<sup>25</sup> See Bridget Welsh “Malaysia and Globalization: Contradictory Currents,” in *Asian Perspective* Vol 23, No. 4, 1999.

<sup>26</sup> Mahathir, Speech titled “Governance, Smart Partnerships and unfettered Globalization,” delivered at the 2<sup>nd</sup> Southern Africa International Dialogue (SAID) in Namibia on July 28, 1998.

Yet no Malaysian era has benefited more from the globalized world via foreign funds, technology and expertise as the Mahathir one, as the premier himself reckoned:

“Instead of being ultra-nationalistic and rejecting foreign participants in the economy, Malaysia actually invited more foreign involvement in the economy, as a result of which many foreign companies began investing in Malaysia...(this) brought about Malaysia’s prosperity...We continue to grow at 8 percent per annum<sup>27</sup>...”

The starting point for the Mahathir regime’s relationship with globalization lay in its potential to help expand the Malaysian economic cake prior to redistribution as advocated by the faltering NEP and to mitigate the devastating effects of the 1985 economic crisis. In 1986, the regime implemented a series of liberalizing measures and tax incentive schemes aimed at making Malaysia more attractive to foreign investors. The regime further implemented its privatization and heavy industrialization policy – both of which desired global capital, partners and technology. Mahathir subsequently announced Vision 2020 – a grand goal of economic development and prosperity designed to take the nation into fully developed status within a generation. The nation was moving steadily in the direction of integrating into the international economy, as Mahathir argued:

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<sup>27</sup> Mahathir, Speech titled “Smart Partnerships for Global Cooperative Security”, delivered at the inaugural International Dialogue on Smart Partnerships in Langkawi on July 26 1995.

“Entry into the world market pits our companies against all corners and subjects them to the full force of international competition. This is a challenge we must accept not simply because the domestic market is too small but because in the long run it will actually enrich our domestic market and reduce our dependence on export.<sup>28</sup>”

By the end of Mahathir’s first decade in power, it seemed that the regime had co-opted the basic pillars of globalization – privatization and liberalization - into its own formula of growth. There were clear payoffs: the growth rate increased from 7 percent in 1986 to 9 percent in 1990, and FDI jumped from \$325 million in 1981 to \$6.2 billion in 1990.<sup>29</sup> By 1995 foreign capital had become the most important factor contributing to growth of Malaysia.<sup>30</sup> By 1996 Malaysia was ranked the 10<sup>th</sup> most competitive economy by the World Economic Forum. The regime’s acceptance of all that came along with globalization is perhaps best illustrated by the introduction, in 1990, of the NDP, which emphasized growth to replace the re-distribution based NEP. In the same year, the government set up the Labuan offshore center, and three years later the Securities Commission and the KL Options and Financial Futures Exchange - instruments that helped integrate Malaysia into the international economy. The regime was actively

<sup>28</sup> Government of Malaysia, *Sixth Malaysia Plan: The Way Forward: Vision 2020*, 1990, pp.9.

<sup>29</sup> Bridget Welsh, “Malaysia and Globalization,” pp 267.

<sup>30</sup> The 1995 *World Investment Report* says that the ratio of foreign investment to gross capital formation in Malaysia was 24.6 – the highest in the region. It was 4.7 for Thailand and 4.5 for Indonesia.



promoting the expansion of capital markets and advocating the opening of the nation's economy to the global environment.<sup>31</sup> Other signs of accepting the broader aspects of globalization included the relaxed immigration laws for foreign labor. In 1995 for instance, Malaysia had more than a million foreigners working mainly in the construction, agriculture and service sector.<sup>32</sup> Yet it was the launching of the multi-billion dollar MSC project in 1996 that signaled the regime's ultimate faith in the process of globalization. The size, underlying philosophy of the MSC, its virtually complete reliance on foreign expertise<sup>33</sup> and domestic policy changes<sup>34</sup> that were required indicated this.

All along, the Mahathir regime believed it was in control of globalization and able to choose which aspects to accept and which to reject. The EPU, staffed with technocrats and located within the Prime Minister's Department saw itself as setting the agenda for both the timing and scope of the economic and financial aspects of globalization. Other governmental institutions such as the Ministry of

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<sup>31</sup> Mahathir's speech, "The Opening of the Asian Capital Markets: Growth Frontiers Conference," delivered in Kuala Lumpur on June 20, 1994 essentially had this theme.

<sup>32</sup> BN Ghosh and Muhammad Syukri Salleh (eds), *Political Economy of Development in Malaysia*, KL: Utusan Publications, 1999, pp216.

<sup>33</sup> The MSC advisory panel, chaired by Mahathir consisted of representatives of Netscape, Oracle, Microsoft, Sony, IMB, Lucky Goldstar, Sun Microsystems, Compaq, Hewlett-Packard and Softbank. See Mahathir's speech, "MSC: A Global Bridge to the World Century," delivered at London on May 20, 1997.

<sup>34</sup> Some examples of policy changes included allowing MSC companies to be 100 percent foreign owned, non-censorship of the Internet, relaxation of visa rules for foreign workers. *Ibid.*

Information - through its censorship powers and the Ministry of Home Affairs – through its licensing powers, helped keep out the cultural aspects of globalization. There was no corresponding liberalization of the print or broadcast media for instance. The regime felt no great compulsion to respond to calls for greater transparency, democratization, individual liberties or accountability – concepts tied to the cultural, social and philosophical aspects of globalization. In fact, the regime not only dismissed these aspects as western and unsuitable for Malaysia, but propagated the exact reverse in some instances. Individual liberties remained curtailed and democratic institutions steadily weakened. Privatization was conducted without the transparency and openness that is accorded by open tenders. Political patronage - with its underlying link between politics and business - remained the main instrument of regime maintenance in its two decade rule. The state was in control. It could thus pick and choose which aspect of globalization was desirable to bring home.

The Asian financial crisis of 1997 brought home the realization that the state was not in control of global forces. The regime watched as massive capital flight crippled the economy, reduced to rubble stock prices and impoverished the nation. It could do virtually nothing as the nation's percapita income was reduced by 70 percent, share prices tumbled 90 percent and vast number of

businesses wound up under massive debt.<sup>35</sup> According to the government's calculations, the crisis cost Malaysia US\$290 billion<sup>36</sup> and the country lost seven years in terms of standard of living gains.<sup>37</sup> Globalization was to blame, and Malaysia needed to barricade itself.

The regime launched an attack on the forces of globalization and chartered previously untravelled directions. Globalization was now a threatening force and Mahathir delivered its eulogy:

"Presently we are not too convinced that it (globalization) is going to be good for us in the developing countries. We have seen how the free flow of capital had damaged our economies and we fear that globalization may turn out to be like socialism and communism, ideas that touted for a time and were then discarded as wrong. Globalization may one day go the way of imperialism, communism and socialism... The best ideology, system or philosophy means nothing if the result does not bring about justice, fair play and prosperity for all."<sup>38</sup>

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<sup>35</sup> Figures derived from Mahathir's speech "Governance, Smart Partnerships and unfettered Globalization." 1998. Others have given equally gloomy figures. Alan Greenspan, chairman of US Federal Reserve estimated that in 1997 alone, the destruction of financial assets was about US\$700 billion. Standard Chartered, a British Bank, estimated that stock market capitalization in East Asia had been slashed by US 2 trillion. The latter figure was equivalent to a twenty percent slump on Wall Street at that time. These figures do not take into account the meltdown in property and debt markets. See Philip Ries, *The Asian Storm: Asia's Economic Crisis Examined*, Boston: Turtle Publishing, 1999, pp 3.

<sup>36</sup> Mahathir arrived at the figure as follows: "Malaysia's per capita income before devaluation was US\$ 5,000. Fifty percent devaluation reduces it to US\$2,500. In GDP terms, Malaysia with a population of 20 million has lost US\$50 billion in purchasing power. We have been pushed back 20-25 years when our percapita was around US\$2,500. . Malaysia's stock market was capitalized at ...US\$360 billion. A fall of 50 percent in share values (and the devaluation of the Ringgit) means market capitalization is reduced to US\$180 billion i.e. 30 percent of what it was before. We have lost US\$242 billion. If you add devaluation loss to market capitalization loss, the total loss is about US \$290 billion, taking round figures. Mahathir's speech "Globalization: Asian Aspirations," delivered at the 2<sup>nd</sup> Asia-pacific Conference in KL on May 20, 1998.

<sup>37</sup> Seiichi Masuyama et.al (eds), *Restoring Asia's Dynamism*, Tokyo: Nomura Research Institute and Singapore: Institute of Southeast Asian Studies, 2000, pp 93.

<sup>38</sup> Mahathir's speech "Globalization: Asian Aspirations."

The regime was thus not prepared to let the institutions of globalization assist in recovery. Mahathir declared the IMF *persona non grata* on grounds that “the standard IMF prescriptions are shortsighted.”<sup>39</sup> The premier went so far as to castigate those nations that opened their doors to the IMF:

“the countries in East Asia have shown that they have clay feet, that under pressure they can all collapse and become beggars, appealing for aid from international institutions, promising to discard their evil ways, which had led to high growth and low inflation.”<sup>40</sup>

The only way Malaysia was going to re-embrace globalization was if it was redefined. “I would like to pledge my support for a globalization that is concerned not just with the means but also the ends.”<sup>41</sup> There was a need to address the exploitation in the international capitalist system: “today...the focus of the new capitalists ...is the exploitation of poor countries worldwide that promises unlimited gains.”<sup>42</sup> There was a need to regulate currency trading: “if currency trading is to be allowed, then it should be made transparent, and it

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<sup>39</sup> Mahathir’s speech titled “Management of an Economy in Crisis,” delivered at the 6<sup>th</sup> Prime Ministerial Lecture of the Harvard Club at Kuala Lumpur on October 5, 1998.

<sup>40</sup> Mahathir’s speech titled “The Future of Asia in a Globalized, Deregulated World,” delivered at the Nihon Keizai Shimbun International Conference in Tokyo, Japan on June 4, 1998.

<sup>41</sup> Mahathir’s Speech titled “Governance, Smart Partnerships and Unfettered Globalizations,” 1998.

<sup>42</sup> Mahathir’s speech titled: “The Future of Asia in a Globalized, Deregulated World,” 1998.

should be monitored and regulated,"<sup>43</sup> and the excuse that this cannot be done is "ridiculous"<sup>44</sup> because it will otherwise "be regulated by rogues."<sup>45</sup> There was a need to de-link globalization from Westernization: "globalization... means Westernization and the acceptance of Western business standards and political systems around the world."<sup>46</sup> The regime thus effectively rejected globalization albeit temporarily,<sup>47</sup> as reflected in its measures of currency controls, pegging of the exchange rate, tightened regulations on the flow of investment and portfolio capital, and reversing the flow of foreign labor<sup>48</sup> into Malaysia.

MFP in the Mahathir regime thus had to deal with the complexity of globalization; charting directions to maximize benefits and keep out "negatives", churning out relevant rhetoric against elements deemed detrimental to national interests, and galvanizing like minded and "skeptical"<sup>49</sup> states to band together

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<sup>43</sup> Mahathir's speech titled "Regulating Currency Trading," delivered at the Conference on "Financial Initiatives for the 21<sup>st</sup> Century in Kuala Lumpur on December 1, 1997.

<sup>44</sup> Mahathir's speech at the APEC Business Summit, Kuala Lumpur, Nov 15, 1998.

<sup>45</sup> Mahathir's speech at 12<sup>th</sup> International General Meeting of the Pacific Economic Cooperation Council in Santiago, Chile, on September 30, 1997.

<sup>46</sup> Mahathir, *New Deal for Asia*, pp 40.

<sup>47</sup> By September 1999, all regulations on investment capital had been removed while those on portfolio capital were severely reduced.

<sup>48</sup> Some half million Indonesian workers were repatriated in the early months of the crisis. See Bridget Welsh, "Malaysia and Globalization," pp 279.

<sup>49</sup> Term originates from David Held's skeptic paradigm which holds that "internationalization depends on state acquiescence and support" and results in the creation of "regional blocs" and "clashes of civilizations. Nation states remain important and conflict amongst states, notably between the powerful developed countries and the weaker developing ones, emerges. See David

within organizations such as the WTO, the G-15 or Asean. MFP set about encouraging foreign capital and technology when the regime saw the integration of the nation's economy as a catalyst for domestic growth and expansion. Matrade and MITI – the main investment attraction instruments of MFP sought to portray Malaysia as Asia's most attractive countries for investment, and achieved monumental success. FDI approvals in Malaysia grew from \$325 million in 1985 to \$2 billion in 1988 to \$6 billion in 1990.<sup>50</sup> The promotional activities of MFP resulted in Malaysia having the biggest stock market in Southeast Asia – capitalized at \$900 billion.<sup>51</sup> But when the forces of globalization increased the vulnerability of the nation to the international environment, leading to domestic political and economic challenges, MFP set about justifying and rationalizing the anti-globalization messages and isolationist actions of the country. The world reacted negatively<sup>52</sup> to the regime's measures in this regard and an unprecedented burden was created for MFP practitioners who had to reverse course from their just mastered art of advocating globalization.

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Held and Anthony McGraw, (eds.), *Global Transformations: Politics, Economics and Culture*, Stanford: Stanford University Press, 1999, pp. 10.

<sup>50</sup> Briget Welsh, "Malaysia and Globalization," pp 267.

<sup>51</sup> Figure derived from Mahathir's speech "Globalization: Asian Aspirations," 1998.

<sup>52</sup> *Time* magazine of December 21, 1998, for instance was representative of the world press when it labeled the regime's policies "nothing short of disaster." In an article entitled "Moving in the Wrong Direction," the magazine's writers portrayed Mahathir's actions as "capital isolationism."

Forced into a backlash mode, MFP moved away from globalization and towards increased reliance on regionalism, seeing the latter as a balancing force to the tide of globalization.<sup>53</sup> The regime invested a great deal of effort not just in pointing out the ills of globalization at regional forums such as the G15 and Asean, but sought collective responses. Malaysia believed Asean had the capacity to hold at bay, on its behalf, some of the forces of globalization. Mahathir argued: "we do have the necessary clout as a group and if we remain strongly united, we should be a credible force which others would need to reckon with."<sup>54</sup> In the post 1997 financial crisis period, Mahathir, believing globalization caused the crisis, sought to harness regional responses as well. MFP rallied these regional groupings: "the G-15 should continue to maintain direct, effective and regular consultations between the developed and developing countries on global macroeconomic policies."<sup>55</sup> Mahathir called for similar action by the G-15 in the WTO:

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<sup>53</sup> Ian Clark. *Globalization and Fragmentation: International Relations in the Twentieth Century*, Oxford University Press, 1997 has theorized that regionalism and nationalism are forces of fragmentation which is a contrast of globalization. Globalization represents interconnectedness, while regionalism is representative of disintegration of the former, especially if it is in response to globalization. See Chapter 1.

<sup>54</sup> Mahathir Mohamad, Speech titled "Asean: Shaping a Regional Order," delivered at the 5<sup>th</sup> Meeting of the Asean heads of Government at Thailand on December 14, 1995.

<sup>55</sup> Mahathir's speech at 7<sup>th</sup> Summit Level Meeting of the G-15 at Kuala Lumpur on November 3, 1997.

“At the last WTO meeting...the G-15 trade ministers worked together with beneficial results. We should now look ahead towards the WTO Ministerial Meeting in 1998 in Geneva and request our ministers to once again engage in consultations prior to that meeting<sup>56</sup>.”

MFP postured for similar collective action amongst the Asean members:

“To make Asean relevant in the next millennium we need to have a long term vision of what we want to be as an association...we need to make the bold move towards greater economic integration, as we will have to face an uncertain environment. Our recent experience with currency manipulators should be a big lesson for us...We have a duty to bring order within and between our countries, and indeed to contribute to a more orderly world environment<sup>57</sup>.”

In conclusion therefore, globalization had a variety of effects on MFP. Its initial attractiveness caused MFP to embrace it and to chart directions that were aimed at reaping its perceived benefits. Somewhere down the line, MFP sought to influence and control the forces of globalization. The 1997 financial crisis brought a turning point for globalization's impact on MFP in the sense that it created a backlash and forced Malaysia to seek refuge in its anti-thesis – regionalism and isolationism.

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<sup>56</sup> *Ibid.*

<sup>57</sup> Mahathir's speech at the 29<sup>th</sup> Meeting of Asean Economic Ministers at Petaling Jaya on October 16, 1997.



## 4.4 SINGAPORE, JAPAN AND CHINA

### 4.4.1 Singapore

Singapore's relationship with Malaysia has been variously described as "symbiotic", "interdependent" and "special."<sup>58</sup> Part of Malaysia for a brief period, the city-state enjoys a geographical proximity which coincides with a shared historical heritage and allows for regular cross-border movements amongst its peoples.<sup>59</sup>

Nonetheless, both states compete intensely in the realms of economics, defense, foreign relations, sovereignty and territoriality. The competition is rooted in historical realities of ethnicity and religious composition of their societies – both of which have become the basis of antithetical national ideologies. Malaysia has a Malay-Muslim majority, which functions within a communal political culture whose policies ascriptively favor the Malay over the Chinese in the name of social justice. The Chinese-majority Singapore on the other hand, having being expelled from Malaysia for failing to reconcile with a

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<sup>58</sup> See N. Ganesan in "Boundary Markers in Malaysia –Singapore Relations," paper presented at the Sixth Malaysia-Singapore Forum at Kuala Lumpur in December 1996, and Hari Singh's paper "Malaysia and Singapore: Reflections on a Special Relationship," also presented at the same forum.

<sup>59</sup> The two countries are connected by a two-mile long land bridge. Both states share a British colonial heritage and both were subject to Japanese occupation. Both states had to undergo a communist insurgency. Singapore was part of Malaysia between 1963 and 65 whereupon it was expelled. Considerable segments of the population have relatives across the border or cross over on a regular basis for employment, business and recreation. See Azizah Kassim and Lau Teik Soon (eds.), *Malaysia and Singapore: Problems and Prospects*, Singapore: Institute of International Affairs, 1992, Chapter 1.

model of nation building that relied on "special positions and rights" for the Malays, chose the antithesis of the Malaysian model as its prescription of nation building namely multiethnicity and multiculturalism. Other foundational contradictions exist: whereas Malaysia's political parties are communal or religions in essence, Singapore's are multi-racial, even though 75 percent of the population is Chinese. Whereas Malaysia's state ideology is based upon ascriptive, redistributive and preferential policies, Singapore projects itself as practicing the exact reverse - meritocracy and universalism. Whereas Islam as official religion is of particular relevance and salience in Malaysian political culture, Singapore has arduously strived for secularism, even prosecuted extreme religious groups.<sup>60</sup> So contrasting are the national ideologies of both nations that they alone are regarded as sources of conflict, as articulated candidly by Singapore's foreign minister in 1990:

"The prime reason for conflict in Southeast Asia was never superpower intervention but local rivalries that had their root causes in historical animosities, racial and religious divisions or competition for influence and resources."<sup>61</sup>

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<sup>60</sup> In 1988 the Singaporean authorities accused a number of Catholics of a "Marxist Conspiracy" to undermine national security. Jehovah's Witnesses and Seventh Day Adventist have been subjected to prosecution for refusing to perform the obligatory military service. In 1996 a number of Jehovah's Witnesses were detained under the city-state's tough preventive detention laws for professing a faith, which is regarded, as unlawful. See N. Ganesan in "Boundary Markers in Malaysia-Singapore Relations," pp. 9

<sup>61</sup> Michael Richardson, "Breaking Down the Asian Barriers," in *Asia Pacific Defense Reporter*, September 1990, pp.24.

These rivalries have spilled over into a variety of realms. Given that both states began their development processes from roughly the same starting point and have the same goals - fast-track economic progress and modernization – the process inevitably became a competition for resources, investments and markets. Such competition is aggravated by the fact that both countries chose import substitution based industrialization and foreign investment as the primary means.

The Mahathir regime upped the ante of such competition through its heavy industrialization and infrastructure development programs. The former eliminated Malaysia's dependence on Singapore for manufactured goods and the latter on the city-state's services. The upgrading of the ports of Klang and Pasir Gudang for instance displaced Malaysia's dependence on Singapore's port facilities and created competition instead. Singapore is Malaysia's biggest investor, mainly by virtue of having moved its labor-intensive industries into the southern Malaysian state of Johor.<sup>62</sup> Singapore is also Malaysia's biggest market,<sup>63</sup> primarily due to the proximity of both countries. But given the local

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<sup>62</sup> Up to 70 percent of Singapore's investment in Malaysia is in Johor. Additionally some six thousand Johoreans cross the border daily to work in Singapore's factories. See *Far Eastern Economic Review*, March 27, 1997,

<sup>63</sup> Singapore accounts for about 20 percent of Malaysian exports, followed by the USA (18 percent) and Japan (12 percent) – 1997 figures. See Seiichi Masuyama et.al. (eds.), *Restoring East Asia's Dynamism*, pp 95.

ethnic and economic considerations, such a state of affairs is more a problem than a blessing because some segments of Malaysia's Malay society view such investments and trade negatively – as a sort of collusion between Singaporean and Malaysian Chinese.<sup>64</sup> Malaysia's MSC project and Vision 2020 can be considered the biggest and most serious challenge for Singapore in the development race. Having leaped into a high-value-added manufacturing based economic niche in the late 1980s, Singapore had left Malaysia far behind in the development race. But the Mahathir regime made clear that the race was far from over.

It is, however, in the security realm that the Malaysia-Singapore rivalry plays out starkly. Singapore sees itself as being viewed suspiciously by its bigger Malay neighbors – Indonesia and Malaysia. It is, after all, the sole Chinese majority nation in Southeast Asia – a small Chinese island in the Malay sea. With Malaysia, the historical experience of separation mired in hostility, resentment and bitterness amongst elites contributed to a mutual "suspicion of intent"<sup>65</sup> leading to the "garrison state" defense posture which in turn generated a siege

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<sup>64</sup> See Hari Singh, "Malaysia and Singapore: A Special Relationship," pp. 10.

<sup>65</sup> Hari Singh attributes the terms to Singapore's first premier Lee Kuan Yew. *Ibid*, pp.7

mentality, exacerbated by the fact that it relies on Malaysia for its drinking water,<sup>66</sup> food and air-space.

The Singapore leadership, impressed by the ability of Israel to survive despite outright hostility from superior neighbors, looked to the Jewish state as a model. The result was the establishment of a Singapore-Israeli military relationship<sup>67</sup> and the adoption of the proven Israeli mode of deterrence based on pre-emptive first strike<sup>68</sup> – euphemistically known as “forward defense.” By the mid-1990s the SAF had, by spending between 11 and 17 percent of Singapore’s GDP and up to 40 percent of its government expenditure,<sup>69</sup> and acquiring sophisticated weaponry, become the most powerful military power in the

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<sup>66</sup> A 1927 Agreement with Johor allowed Singapore to draw up to 1.5 million gallons of water per day from reservoirs in the Malaysian state. In 1961 a new agreement increased the volume to 86 million gallons per day. This agreement lapses in 2011. In 1962 another agreement gave Singapore the right to draw up to 250 million gallons daily from the Johor River. This agreement is valid for 99 years and contained a provision for review every 25 years. Both agreements were guaranteed by Malaysia under the Separation Agreement (SA), which was lodged with the United Nations. The lodging of the SA with the UN was meant to ensure Malaysia would not renege on a binding contract and demonstrates Singapore’s anxiety regarding continued supply of potable water. See N. Ganesan, “Malaysian-Singapore Relations,” in *Asian Affairs*, Vol 3, 1997, pp.26.

<sup>67</sup>See Andrew Tan, “Problems and issues in Malaysia-Singapore Relations,” Working Paper No. 314, Canberra: Strategic and Defense Studies Center, pp. 3.

<sup>68</sup> The pride of the SAF is the air force, which is larger than either Malaysia’s or Indonesia’s. Its attack aircraft consist of F-16s, F-5Es and A-4 Skyhawks. The combat force is backed by force multipliers such as C-130 Hercules air tankers and the E-2C Hawkeye airborne early warning (AEW) aircraft. The air force has substantial helicopter strength. Singapore has a maritime reconnaissance capability and its skies are heavily defended by Rapier RBS-70, Mistral and Hawk surface to air missiles (SAMS). Singapore’s military manpower is almost twice of Malaysia’s. See *The Military Balance* 1996/97 pp. 196, and *Jane’s Defense Weekly*, February 22, 1992 pp. 309.

<sup>69</sup> Williard A Hanna, *The New Singapore Armed Forces*, American Universities Field Staff Reports, Southeast Asia Series, Vol 21, No.1, 1973, p.1.

region.<sup>70</sup> The city-state has also instituted the world's most comprehensive defensive measures rivaled only by Israel.<sup>71</sup>

Malaysia views the arming to its teeth posture of Singapore as being aimed primarily at her, particularly since Singapore has developed closer links with Indonesia<sup>72</sup> – the deeper end of the Malay sea.<sup>73</sup> John Keegan has argued that the crux of Singapore's defense system relies around securing its water supply in Johor.<sup>74</sup> Tim Huxley has argued that the SAF's order of battle is designed for possibility of war with Malaysia:

“the SAF would aim to disable their Malaysia's counterparts with a brutal and fearless pre-emptive strike ...throw its overwhelming armor across to Johor in order to secure Singapore's water supply...”<sup>75</sup>

<sup>70</sup> John Keegan, in *World Armies*, London: Macmillan 1983, pp 520 defines the SAF as “one of the best forces in Southeast Asia, well-armed and well-trained.”

<sup>71</sup> Under Singapore's total defense doctrine, economic resources, civilian vehicles, vessels and aircraft can be mobilized for defense purpose. Stretches of roads are built so as to act as emergency runways for the air force. The city is equipped with an air raid siren system. Food and strategic stockpiles are maintained and a huge civilian bomb-shelter program – involving virtually all housing estates and subway stations – is in place. The country has a super-switch, which can affect a total blackout in the event of a night attack. See *The Straits Times*, May 1, 1984, October 18, 1986, February 21, April 14, October 4, and August 7 1987; *Singapore Armed Forces News - Pioneer*, May 1986, pp12, and *Asiaweek* December 7, 1984.

<sup>72</sup> Singapore has military training grounds in Sumatra and has access to Indonesian military facilities for training. Indonesia has allowed Singapore use of its air space for training. Since 1990 the two states have had regular bilateral military exercise. Singapore has also signed water agreements that allow the city-state to draw water from Sumatra or Bintan. Indonesia's payoff is in the form of commercial interests: Singapore is Indonesia's largest trading partner, See Andrew Tan, “Problems and issues in Malaysia-Singapore Relations,” pp 12 and N. Ganesan, “Malaysia-Singapore Relations” pp. 29.

<sup>73</sup> Indonesia's military manpower at the close of the century stood at about 700,000 men, compared to Malaysia's 160,000 and Singapore's close to 300,000. See *The Military Balance*, 1998/99.

<sup>74</sup> John Keegan, *World Armies*, pp 519.

<sup>75</sup> Tim Huxley, “Singapore and Malaysia: A Precarious Balance?” in *Pacific Review*, Vol 4, No. 3, 1991 pp 208.

More direct references have come from the horse's mouth. In 1987, Singapore's cabinet minister and son of Premier Lee Kuan Yew, Brigadier-General Lee Hsien Loong admitted that SAF was cautious in appointing Malays to key positions on grounds that:

"If there is a conflict, if the SAF is called to defend the homeland, we do not want to put any of our soldiers in a difficult position where his emotions for the nation may be in conflict with his religion because these are two very strong destructive forces pulling in opposite direction."<sup>76</sup>

For the Mahathir regime, such pronouncements were evidence that Singapore's military planners viewed Malaysia as a target of its military doctrine.<sup>77</sup>

It is within such a framework of geographical proximity, shared historical heritage, and intense ideological, economic, and military competition that Singapore's effects on MFP as an external factor can be observed. While the actual MFP outputs are left for subsequent chapters, the discussion here concentrates on the macro aspects of MFP.

Firstly, given the developmental and commercial tint of the Mahathir-era MFP, Singapore factors in MFP's designs for new market penetrations and

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<sup>76</sup> *Straits Times*, February 23, 1987.

<sup>77</sup> One could argue that the implication applies equally to Indonesia, yet the furor, which resulted, was between Malaysia and Singapore. President Suharto of Indonesia played a key role in mediating, by visiting Malaysia and traveling by road to Singapore – a symbolic gesture aimed at highlighting the connectivity between Malaysia and Singapore.

foreign investment and technological know-how attractions as a serious competitor. As argued above, MFP's objectives for Asean expansion and EAEG lay primarily in Malaysian efforts to mitigate the effects of the 1986 economic crisis, seek refuge from the forces of globalization and to check the influence of the American-sponsored APEC grouping. While Mahathir discussed Asean expansionism with Indonesia in particular and the EAEG proposal with Japan prior to committing the resources of MFP to sell the idea, Singapore was deliberately left out – something which expectedly became its basis for opposition to both initiatives. This non-consultation appears to be by design driven by the premise that Singapore's opposition would benefit Malaysia.<sup>78</sup> On the Asean expansion issue, Singapore echoed the US-Western stand that Cambodia, Laos and Myanmar meet minimum standards of human rights. Such opposition translated into favorable treatment for Malaysia vis-à-vis its main competitor in its quest for market and investment penetration into all three new members.

Second, Singapore has factored substantively in MFP's calculations of threat and security perceptions. Singapore compares with China as the main external threat and has become Malaysia's primary threat concern in the

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<sup>78</sup> Personal correspondence with MITI official dated 16 October 2004.



immediate region. Malaysia is convinced that Singapore's forward defense is aimed at Malaysia.<sup>79</sup> Malaysia believes that the militarily superior Singapore would go to war if it perceived its water supply to be under threat.<sup>80</sup> There is a psychological element in Malaysia's threat perception vis-à-vis Singapore.

Singapore's military is predominantly Chinese and there are fears that it would intervene in the event of Malay-Chinese riots in Malaysia.<sup>81</sup> An additional psychological factor is provided by the Singapore-Israel connection. The SAF is modeled on the IDF<sup>82</sup> and there exists a tendency to compare Malaysia's underdog military status with the fate and plight of Palestinians viz a viz the vastly superior Israel.<sup>83</sup>

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<sup>79</sup> Correspondence with Malaysian Ministry of Defense (Mindef) official dated August 28, 2004.

<sup>80</sup> Correspondence with MFA official. The notion that former Singapore premier Lee Kuan Yew had privately made known Singapore's resolve to go to war over water is held by some segments of the Mindef and MFA.

<sup>81</sup> *Ibid.*

<sup>82</sup> John Keegan, *World Armies*, pp 520.

<sup>83</sup> A commentary by a Malaysian Malay language newspaper Watan, during the height of the debate of the sovereignty of Pedra Branca accused Singapore of being like the Jews in wanting to cheat history with regard to Palestine because US-made weapons support their military strength. Another Malay publication, *Harakah*, said, in reference to the same dispute: "we don't want Malaysia to be like Palestine when it faced Singapore," See Andrew Tan, "Problems and Issues in Malaysia - Singapore Relations," pp 14.

The two countries have on at least two occasions come close to armed conflict and put their armed forces on alert,<sup>84</sup> and there have been instances where Malaysia has uncovered espionage activities<sup>85</sup> by Singapore.

In the mid 1990s, the Mahathir regime embarked on a massive military buildup and modernization program that involved expanding naval, air and military facilities, procuring advanced fighter aircraft and submarines, and modernizing its armed forces.<sup>86</sup> This revamp meant that the new thrust in defense policy now fell on the navy and air force acting as deterrents.<sup>87</sup> The navy signed up with Germany to build its naval fleet and the air force stacked up on Hornet fighters from the USA and MiG-29s from Russia. In 1996 Malaysian arms

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<sup>84</sup> The first incident of alert came about in the aftermath of the territorial dispute over the island of Pedra Branca, which was in the hands of Singaporean control but was claimed by Malaysia. Singapore, in an apparent bid to keep its program of strengthening the defenses of the island under wraps began harassing Malaysian government and private vessels. A furor erupted which resulted in the armed forces of both states going into alert status. See *The Far Eastern Economic Review*, September 24, 1991. The second incident involved a Malaysian-Indonesian joint military exercise codenamed "Total Wipe Out" which resulted in a paratroop landing in a location at Johor just 18 km away from Singapore on the city-state's national day in 1991. Singapore, taking the incident to mean a provocation responded by launching Operation Trojan, under which its armed forces went on full alert and a partial mobilization of reserve forces, including an armored brigade was carried out. See Andrew Tan, "Problems and Issues in Malaysia-Singapore Relations," pp. 12.

<sup>85</sup> In 1990 the Malaysian government announced the crippling of a spy ring and the arrest of 7 persons, five military officers and their two Singaporean handlers. See *The Straits Times*, February 18, 1990. Also, Singapore possesses real-time battlefield reconnaissance capabilities in the form of Israeli-made Malat Scout unpiloted reconnaissance aircraft, some of which have been found crashed in Malaysia. See Tim Huxley, "The RSAF: Procurement Programs and Future Requirements," in *Asian Defense Journal*, February 1996, pp. 24.

<sup>86</sup> The Malaysian Air force (RMAF) has since acquired MiG-29s, F-18 Hornet, F-16 jetfighters. Hawk ground attack aircraft, mobile surface to air missiles (SAMs), air defense radars, British made missile frigates equipped with Seawolf anti-missile defenses and Russian made submarines of the Kilo class. It has also acquired some 300 main battle tanks and 2,000 APCs. *The Military Balance*, 2000/1.

<sup>87</sup> Chandran Jeshurun, "Malaysian Defense Policy Revisited – Modernization and Rationalization in the Post-Cold War Era," in *South East Asian Affairs*, 1994.

imports amounted to US\$350 million, almost matching Singapore's, ranking the country eleventh among the world's largest arms imports.<sup>88</sup> Mahathir justified the spending by saying, "when we buy new (weapons) we buy the latest."<sup>89</sup> That this build-up was in response to Singapore was given away by the timing and nature of expansion – the most telling of which is the building of two large military and naval bases in Johor – a clear indication that strengthening its defenses in the south is of major concern. In terms of timing – it is clearly a reaction to Singapore's arms buildup. The regime's calculation seems to be that since Malaysia can only get better economically and militarily, it can, over time, dent Singapore's military superiority. Having reached economic maturity, the city-state cannot forever maintain its vast superiority – something that Singapore understands, given that its response to the Malaysian arms build-up has been to seek closer cooperation with the USA.

Consequently, Singapore's ties with the USA are of issue to MFP. It is argued that this factor, more than anything else, forced MFP to support the ARF despite its apprehensions about super power involvement in the region's security. MFP calculated that given the developing US-Singapore alliance a

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<sup>88</sup> Singapore imported US\$400 million worth of arms in 1996. *The New Straits Times*, October 15, 1997.

<sup>89</sup> Cited in *Asiaweek*, May 9, 1997, pp. 34.

active participation in the ARF was a practical option because it allowed Malaysia a say in regional security matters. Similarly, despite its misgivings about US bases, Malaysia allowed the US Navy access to repair facilities at Lumut, after Singapore decided to allow the permanent basing of more than 100 US service personnel and the establishment of a US Navy's logistics headquarters for the Western Pacific<sup>90</sup> - if only to balance out the Singapore-US alliance. The US war on terror accorded a unique opportunity for Malaysia to even try and tip the balance in its favor. It took the opportunity without much persuasion resulting in intelligence and security based cooperation. All the above happened in the backdrop of MFP coming to terms with the preponderance of US power in a post-Cold War era.

In addition to the above-mentioned effects on MFP, the city-state's diplomatic modus operandi affects MFP policy implementers as well. There exists the feeling for the need, amongst Malaysian diplomats, to compete with their Singaporean counterparts more than say Thai or Indonesian Foreign Service personnel.<sup>91</sup> There exists anticipation of open, subtle, couched or behind the

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<sup>90</sup> This role was played by the Subic Bay in Philippines, which had to be closed in 1992 due to massive destruction by volcanic activity and the refusal by the Philippines government to extend the lease on the base. See *The Far Eastern Economic Review*, August 20, 1998.

<sup>91</sup> Correspondence with two Malaysian diplomats dated 12 July and 18<sup>th</sup> August 2004. Both spoke of the "myth of the Singapore diplomat" as being amongst the best in the world. One diplomat said he believed it to be an extension of the "meritocracy" debate and that the myth implied that while Singaporean diplomats were chosen based on their caliber, the Malaysian ones had secured

scenes reaction ranging from outdoing, criticizing or sabotaging of MFP initiatives; and some Malaysian diplomats appear to take these into consideration in the course of their work. The Malaysian attempt to sell the MSC concept to the international community, and its attempts to assuage international criticism to the government's treatment of Anwar Ibrahim come out tops as examples amongst Malaysian diplomats when asked about this issue.<sup>92</sup>

Malaysian diplomats thus sometimes factor in possible behind the scenes challenges from their Singaporean counterparts in planning their professional routines. Within Asean, for instance, Malaysia's diplomatic apparatus has tended to ally with Indonesia in reaction to Singapore's alliance with Thailand on a variety of issues. Such an alliance was observed during the Cambodian crisis of the mid 1990s when Singapore and Thailand took a hard-line position as compared to the moderate one by Malaysia and Indonesia. A similar alliance was observed during the Asean expansion issue, East Timur and Asean's debate in the aftermath of the 1997 financial crisis. In all three cases, Singapore and Thailand pressed for Asean's "non-intervention" principle - a face saving rule whereby members refrain from commenting on the internal affairs of each other -

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their positions through a variety of "non-meritocratic" means - racial quotas, political connections etc.

<sup>92</sup> *Ibid.*

to be set aside for meaningful debate to take place, while Malaysia joined Indonesia in vociferously opposing the dismantling of the cardinal principle.<sup>93</sup>

#### 4.5.2 Japan.

When the Mahathir regime assumed power, East Asia was fast becoming Japan's prime location for its exports and offshore investment. The Japanese investment boom in Asia began with the 1985 Plaza Accord - a mechanism that resulted in Asia becoming Japan's largest destination for exports and for direct investment within one decade of the Accord. Japanese FDI in East Asia increased from US\$1 billion during the first half of the 1980s rising to 8 billion in one decade.<sup>94</sup> For East Asia this meant that growth in FDI for the region was monumental - its share of world stocks of FDI rose from 7% in 1980 to 16% in 1996 and it outstripped growth in trade.<sup>95</sup> Japanese FDI in Asia peaked to more than 10 billion in 1995 - by which year Japan was providing up to one half of all

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<sup>93</sup> Hang Sung- Joo (ed), *Changing Values in Asia: Their Impact on Governance and Development*, Tokyo: Japan Center for International Exchange, 1999, pp 164.

<sup>94</sup> Figures derived from Japan External Trade Organization, "Trends in Japan's FDI Outflow by Region" [www.jetro.go.jp](http://www.jetro.go.jp)

<sup>95</sup> Hafiz Mirza, "Reviving FDI Inflows in South East Asia." Paper presented at International Business Seminar, University of Bradford, 2002, pp 3.

foreign capital that ASEAN nations received.<sup>96</sup> The reasons for this rapid increase in Japan's FDI to East Asia lay in a variety of push and pull factors.

Amongst the pull factors, the Japanese firstly saw Asian countries as production bases for their exports. These countries provided cheap labor, lower manufacturing costs and tax incentives allowing Japanese industries to dominate global consumer goods markets. For example in 1986 the average real wage costs in Asian NIEs and ASEAN countries were about 20 and 10 percent respectively of the figure for Japan.<sup>97</sup> Secondly, Japanese investments in Asia yielded the highest levels of profits. In 1995 for instance, profitability of Japan's FDI in the manufacturing sector in Asia was 5% compared to just 2.0 % in North America and Europe.<sup>98</sup> Third, the steadily improving investment climates of Asian NIEs and ASEAN countries made these economies a reasonably good environment for foreign investment in terms of infrastructure, level of education, institutional framework and political stability. Additionally, the differences in development between the Asian NIEs and the ASEAN countries allowed the Japanese a great deal of flexibility in their decision on what type of investment to

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<sup>96</sup> Japan External Trade Organization, "Trends in Japan's FDI Outflow by Region" [www.jetro.go.jp](http://www.jetro.go.jp)

<sup>97</sup> Ishida Kazuhiko "Japan and FDI in East Asia" paper posted on the website the Bank of Japan

<sup>98</sup> MITI figures, quoted in Seiichi Masuyama (ed) *Restoring East Asia's Dynamism*, Tokyo: Nomura Research Institute and ISEAS, 2000, pp 223.

base where, and also to shift from the former to latter when NIEs gradually lost their competitiveness due to higher labor costs. Japanese investors thus had a healthy variety of investment climates to choose to go into, and they could do their pickings close to home within a region, which they felt they understood well. In other words the “flying geese”<sup>99</sup> investment phenomenon had found a perfect nesting ground for Japanese investors in Asia.

Amongst the push factors, the protectionist pressures in Europe and the aggravation of trade friction with the United States made the Japanese see Asian markets as important in their own right. Asia in general and Asian NIEs in particular were enjoying rapid growth rates.<sup>100</sup> Asia’s attractiveness to Japan as a market is seen from the fact that by mid 1990s, Japan had become the single largest investor in terms of stock in Thailand, Indonesia and Malaysia, and the

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<sup>99</sup> The term, introduced by economist Kaname Akamasu became popular in the 1980s as a way to explain the patterns of Asian development and Japanese investment. Japanese economist Saburo Okita explains it thus: Geese in temperate countries fly together in a “V” formation. This formation highlights the differences between the economic levels of the various Asian countries. Countries toward the front tend to transfer “older” industries to countries at the back. The process is continuous because of changes in comparative superiority. This process makes it easy to find markets through the production process in various Asian countries. The model also explains the division of labor in Asia, which is different from the horizontal pattern found in Europe, which is marked by trade in manufactured goods between countries in more or less the same level of development. The division of labor in Asia follows the ‘V’ formation – with the countries in the front passing on certain sub-processes to those behind. See Philip Kotler and Hermawan Kartajaya, *Repositioning Asia: From Bubble to Sustainable Economy*, Singapore: John Wiley, 2000, pp 11.

<sup>100</sup> For the ten-year period 1982–91, East and South Asia’s growth in real GDP per Capita grew at an average rate of 5.0 percent. The corresponding figure for Asian NIEs is 7 %, Advanced Economies 2.5% and developing Economies 2.0 %. See Hafiz Mirza, “Reviving FDI Flows into SEA,” pp 2



second largest in the Philippines.<sup>101</sup> Second, to cope with the rising costs of obtaining parts and components from Japan, Japanese companies in Asia steadily increased the content of their products sourced from their Asian subsidiaries.<sup>102</sup> In the mid 1990s, importing from overseas affiliates began to be cited by a number of firms as one of the main reasons for undertaking FDI in East Asia.<sup>103</sup> The third factor was the steady appreciation of the yen, which was the direct result of the Plaza Agreement. To compensate for the loss of profits from the upward movement of the yen, more and more firms shifted production overseas.<sup>104</sup> In 1995, of the 10 billion invested in East Asia, 8 billion went into the manufacturing industries.<sup>105</sup> Finally, when in 1989 the Japanese economy started slowing down,<sup>106</sup> offshore investments provided an attractive option as a way to overcome the effects of stagnated growth.

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<sup>101</sup> See "Japan and Asia: Developing Ties, in *OECD Observer*, August 1, 1999, pp 71.

<sup>102</sup> C.H Kwan, *The Rise of Asia and Japan's Hollowing out Problem*, Tokyo: Normura Research Institute, 1996.

<sup>103</sup> Kazuhiko, "Japan and FDI in East Asia" cites a 1994 survey published by the Export-Import Bank of Japan, which states that more than a fifth of firms, which has invested in ASEAN countries, provided this reason.

<sup>104</sup> Kazuhiko, "Japan and FDI in East Asia" makes this argument.

<sup>105</sup> Japan External Trade Organization, "Trends in Japan's FDI Outflow by Sector" [www.jetro.go.jp](http://www.jetro.go.jp).

<sup>106</sup> Robert McKee, "Japan Needs Reform" report posted on Independent Strategy of London, website, 2000 argues that growth in 1989 had come down to 0.5 percent – signaling a serious slowing down of the Japanese economy.

Japan and East Asia thus seemed to have struck a mutually beneficial economic partnership, which was hedged on FDI. For all the returns that the Japanese got from these investments, the recipient economies enjoyed benefits by effecting shifts in their industrial structures and increasing labor productivity. More importantly, however, the FDI recipient countries were able to change the structure of their exports from one relying on primary products to industrial products. Periods that correspond with surges in Japanese FDI into East Asia and ASEAN also correspond to surges in export flows for the recipient countries. For example exports from NIE to the United States doubled between 1985 and 1995, and that between NIEs and Japan tripled. A similar pattern is observed for ASEAN trade with both Japan and the USA.<sup>107</sup>

As for Malaysia, the above-mentioned trends resulted in Japan becoming its main source of FDI in the manufacturing sector throughout the 1980s<sup>108</sup> and the single largest investor of stock in the 1990s.<sup>109</sup> Japanese FDI became the single largest catalyst for growth and development in the Mahathir era. But for Mahathir there was more to Japan than economic benefits.

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<sup>107</sup> Japan External Trade Organization, *Jetro White Paper on Foreign Direct Investment 1997*, [www.jetro.go.jp](http://www.jetro.go.jp).

<sup>108</sup> Phang Hooi Eng, *Foreign Direct Investment: A Study of Malaysia's Balance of Payments Position*, PJ: Pelanduk Publications, 1998, pp 2.

<sup>109</sup> See "Japan and Asia: Developing Ties, in *OECD Observer*, August 1, 1999, pp 71.

When Mahathir assumed power in 1981 Japan was at the peak of its economic success – having succeeded in emerging as the world’s second largest economy at US\$4 trillion. Such success gained worldwide recognition, but in the developing world the Japanese model provided an inspiration for progress to countries aspiring for economic modernity.<sup>110</sup>

For Mahathir, Japan’s success coincided with three other factors that provided him the rationale for looking at the Japanese model more seriously than others - his own nationalistic cum anti-West worldview, the economic problems of Britain and other European countries, and the regime’s own fast track national development formula. Two other factors, one external – the economic crisis of the mid 1980s – and one domestic – regime stability in the aftermath of the 1986 UMNO crisis<sup>111</sup> - further allowed Japan to impact on MFP in the Mahathir era.

Thus, if Singapore influenced the Mahathir MFP by virtue of its geographical proximity, historical experiences, societal realities and intense competition, Japan acted as a external factor by virtue of its economic strength. It

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<sup>110</sup> Lee Poh Ping, “The Japanese Model and Southeast Asia with Particular Reference to Malaysia,” in *Kajian Malaysia*, Jun 1988 argues that Ezra Vogel’s book *Japan as Number One* acted as a propagation of the Japanese model to much of the developing world. See pp.112.

<sup>111</sup> These idiosyncratic factors and domestic variables, which led to the Mahathir regime’s dependence on Japan, are discussed in detail in Chapters 2 and 3 above.

was the region's number one economic power and had a huge volume of FDI in Malaysia. It was Malaysia's leading trading partner and it possessed the technology that Malaysia sought in its quest towards modernization. Most important of all, it provided a non-Western developmental model for the Mahathir regime to emulate. The result was that under the Mahathir regime, Japan replaced Britain as Malaysia's number one bilateral partner.

Mahathir believed that the root cause of the decline of the European economies was also the recipe of Japanese success, namely work ethics and values such as discipline.

"The Western nations have been laboring under an illusion. They believe only in their own intellect and expertise and to them no one else can compete with them. And because of this, they no longer work hard and instead take things easy. Through their unions, the Western workers agitate for all sorts of benefits, until there are western nations that pay more allowances to their unemployed than to those working. Thus many chose not to work."<sup>112</sup>

On the other hand, Japanese success was dependent on values that were worthy of emulation: diligence, discipline, loyalty, the promotion of group rather than individual interest, high quality and good management systems in business.

"The first nation to recognize organization and discipline as the basis of success was Japan. While it is true that the Japanese already possessed the basics of discipline when they came into contact with Westerners, their

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<sup>112</sup> Mahathir Mohamed, Speech at the 35<sup>th</sup> Umno General Assembly, 25<sup>th</sup> May 1984.

discipline lacked effective organization and system. With the basics they already had, they assimilated Western organization and discipline into all aspects of life in their society. In a very short time, Western-style organization and discipline succeeded in making Japan a world power.”<sup>113</sup>

Mahathir further believed that the Japanese Incorporated model, which relied on close ties between politics and business, had contributed to Japan’s monumental success. He introduced the Malaysia Incorporated concept with the aim of encouraging business owners and workers in the public and private sectors to work together. The concept also created large companies based on the Japanese *sogo shoshas* (conglomerates). Mahathir further encouraged the adoption of in-house unions, a Japanese concept which, while allowing unions to exist, severely curtailed their powers by delineating them and preventing them from being members of big powerful umbrella unions – institutions that Mahathir felt were responsible for the decline of Europe:

“If any society in the world comes close to anarchy, it is the socialist state, as found in Britain today. In Britain not only is the government powerless to control the self-seeking of certain group of workers; they do not even listen to their own leaders. The result is that society is constantly threatened with uncertainty over the supply of goods and services. Prices soar,...and no power exists to ensure that the interests of society as a whole are given priority.”<sup>114</sup>

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<sup>113</sup> Mahathir, *The Challenge*, pp. 133.

<sup>114</sup> Mahathir, *The Challenge*, pp 138.

In Malaysia Incorporated, as with its Japanese version, unions were expected to place the collective interests of society above their self-interests. The concept even went as far as to equate political stability and national security with the absence of strikes and other forms of labor protests.

In conclusion, it is argued that the Japanese impact on MFP was definite. While the specific foreign policies - the Look East and Buy British Last – and the domestic policies to complement them - Malaysia Incorporated, Privatization and the Heavy Industries Policy – are discussed in the chapter 5, the remainder of this section looks at the broad ways in which MFP was shaped by the Japan factor.

First, Japan provided the impetus for MFP to move further away from Western and European countries and closer towards the Eastern countries such as Japan, Taiwan, Korea and China. Japan replaced Britain as Malaysia's closest ally and together with Taiwan and the USA emerged as Malaysia's most important economic partner in terms of FDI and trade.<sup>115</sup> Japan also emerged as the preferred model for growth and development, and MFP sought to play its role in facilitating its transplantation on to Malaysian society.

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<sup>115</sup> Japan was Malaysia's leading source of FDI in the manufacturing sector throughout the first half of the Mahathir regime. Taiwan overtook Japan in the second half. See Phang Hooi Eng, *Foreign Direct Investment*, pp 2.

Second Japan provided an added impetus towards the emerging commercial and developmental focus of MFP in the Mahathir era. Attracting yen FDI, improving trade, technology transfers, facilitating Malaysian-Japanese joint ventures and emulation of the Japanese business practices became the focus of a foreign policy already striving to look beyond its borders for ways to enlarge the nation's economic cake.

Third, MFP in the Mahathir era not only recognized Japan as a regional economic power, but also sought to rely on it to balance the impact of global economic powers such as the USA and the EU. Mahathir believed Japan had the resources to provide economic leadership to the region, but lacked the political will. MFP sought to nudge Japan into taking over such a role via the EAEG proposal, which was part of Mahathir's desire to create a group consisting of all-Asian countries,<sup>116</sup> which had "something in common" as regards culture, attitudes and approaches towards economic development to counter the West<sup>117</sup> as well as to provide Asia with a strong, united voice in international trade

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<sup>116</sup> As opposed to APEC, which based on the concept of "open regionalism" allowed for the membership of East and Southeast Asia with Australia, New Zealand, Papua New Guinea and North and South America.

<sup>117</sup> R. Higgot and R. Stubbs, "Competing Conceptions of Economic Regionalism: APEC vs. EAEC in the Asia Pacific," in *Review of International Political Economy*, Vol. 2, No. 3, 1995, pp 522 argue that the EAEC was aimed primarily at "combating the political power of the US and Europe." R.S Milne and DK Mauzy in *Malaysian Politics under Mahathir*, pp 130 argue that unlike APEC, EAEC was not geared to promoting economic liberalization and free trade and that the concept suggested a potentially anti-Western coalition.

organizations. Mahathir took the proposal to Japanese leaders and obtained their blessings before tabling it formally in Asean. Even when Japan subsequently backed out under US pressure, Mahathir continued to argue that Japan “owed it” to Asia to lead the EAEC.<sup>118</sup>

Finally, Japan influenced the institutional structure of Malaysian diplomacy. Taken by the functional success of Japan’s all-powerful MITI side by side the MFA, Mahathir set up two well-equipped organizations - MITI and MATRADE with the express purpose of promoting foreign investment and trade. Both bodies operated independently of MFA and were under the continuous command of one of Mahathir’s most loyal ministers<sup>119</sup> throughout the Mahathir era. The economic division of MFA continued to function, but the real authority with regards to foreign investments and trade lay within the realms of MITI, Matrade, MIDA and the Prime Minister’s Office.

#### 4.5.2 China.

China’s influence on MFP arises from three major factors. It is the region’s military superpower, a fast expanding market, and is the homeland of Malaysia’s

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<sup>118</sup> *Far Eastern Economic Review*, November 24, 1994.

<sup>119</sup> MITI and Matrade remained under Minister Rafidah Aziz throughout the Mahathir era. The Ministry of Foreign Affairs however changed ministers five times.



immigrant Chinese population. Added to these is a history of a communist insurgency and ideological antagonisms which continue to fester in the form of competing claims to off shore territory.

China is central to a number of security issues affecting Southeast Asia and the Asia Pacific. It has serious unresolved territorial issues with Taiwan and Russia. It has overlapping claims in the South China Sea<sup>120</sup> with Japan, Vietnam, Malaysia, Philippines, and Brunei. It is the object of deep-seated distrust and suspicion in the region particularly in response to its weapons acquisition and armed forces modernization plans. China is the only country in the region whose defense expenditure as a percentage of GDP has not fallen over an entire decade.<sup>121</sup> Additionally, suspicions have existed over China's role and involvement in domestic insurgencies in the region. China's military adventures into Vietnam and Cambodia in the past, and its declared stand on its unwillingness to rule out the use of force on the Taiwan issue fuel such suspicions even further. China's rivalry with the United States for regional dominance further affects ASEAN's regional security perspectives. There exist perceptions

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<sup>120</sup> Four Areas are in dispute in the South China Sea: the Paracels, which is contested by China, Taiwan and Vietnam; the Gulf of Tonkin, disputed by China and Vietnam; Pratas Island and Macclesfield Bank, contested by China and Taiwan; and the Spratlys, contested by China, Taiwan, Vietnam, Philippines, Malaysia and Brunei. China claims 80 percent of the South China Sea. See Derek Da Cunha, (ed) *Southeast Asian Perspectives on Security*, Singapore: Institute of Southeast Asian Studies, 2000, pp. 99.

<sup>121</sup> See Abdul Razak Baginda and Anthony Bergin, (eds.) *Asia-Pacific's Security Dilemma*, London: Asean Academic Press, 1998 pp.9

that China would not like its advantage vis-à-vis smaller neighbors neutralized by strong multilateral processes such as the ARF. China also fears that regional multilateral processes would be dominated by its rivals, hence its reluctance to be party to them. The ARF has by and large been unable to prevent China from initiating political, military and economic measures deemed undesirable to the region. The grouping has also failed to shape the framework for settlement of disputes with China, though there has been some success in persuading it to engage in dialogues. Here again China has preferred bilateral dialogues to multi-lateral ones, signaling its unwillingness to let multi-lateral initiatives erode its influence in the region.

There is anticipation that China is expected to grow into a political, economic and military colossus in a decade or two, and how it then interacts with her three great regional rivals – Russia, Japan and India – is of concern. It has been argued that China's decision to enhance its military capabilities serves to exacerbate the insecurity of other states in the region.<sup>122</sup> It has also been argued that China's policies and the region's reaction to them is intensifying, rather than

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<sup>122</sup> Weixing Hu, "China's Security Agenda After the Cold War," in *The Pacific Review*, Vol 8, No., 1, 1995, pp 131.

mitigating China's and the region's security dilemma.<sup>123</sup> Even those with less faith in China's future success point to a China in a state of crisis much like the erstwhile Soviet Union coping with secessionist demands and calls for political reform.<sup>124</sup> Either scenario posits China as a major external security threat to the region. The end of the Cold War even allowed Asean to openly admit what had been hitherto denied through adherence to the neutrality based ZOPFAN concept - that the security of the region *did* depend on China's actions and intentions.<sup>125</sup>

The end of the Cold War, the demise of the Soviet Union and the resolution of Chinese-Russian border disputes,<sup>126</sup> has, by reducing the chance of war with Russia, allowed for China to shift its military focus closer to home. Collins has argued that with the prospect of a major war receding, the possibility of more localized and limited conflicts on China's periphery began to be perceived as new threats. It has thus reorganized its military strategy in order to focus on the need to project force to defend its strategic frontier, which includes

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<sup>123</sup> Avery Goldstein, "Great Expectations: Interpreting China's Arrival," in *International Security*, Vol 22, No. 3, 1997/98 pp. 65.

<sup>124</sup> Alan Collins, *The Security Dilemmas of Southeast Asia*, UK: MacMillan Press, 2000, pp 134.

<sup>125</sup> Michael Leifer, "The Asean Regional Forum," Adelphi paper 302, London: International Institute for Strategic Studies, pp. 20.

<sup>126</sup> Russian President Boris Yelstin and Chinese President Jian Zemin signed an agreement in November 1997 ending the two countries' protracted dispute over the demarcation of their border over some 4,300 kilometers. See Alan Collins, *The Security Dilemmas of SEA*, pp. 155.

the Indian Ocean, the Malacca Straits and South China Sea.<sup>127</sup> China's military ties with Rangoon and its construction of military facilities in the Andaman Sea are believed to be aimed towards such an objective.<sup>128</sup>

For Malaysia and indeed the region, the most serious and urgent security issue relates to China's intentions vis-à-vis the Spratlys.<sup>129</sup> China has claimed sovereignty over much of the South China Sea based on historical grounds. Territories in the South China Sea are said to have been discovered during the Han Dynasty in the second century and administrative control assumed at the beginning of the Tang Dynasty in the eighth century.<sup>130</sup> Some Asean states have also laid claim to the South China Sea. Vietnam claims all the islands and features that are above sea level in the Spratlys and considerable areas of the South China Sea on historic grounds, while the Philippines justifies its claims on geographical proximity. Malaysia has laid claim to seven features that fall within its continental shelf, while Brunei's claim is based on its EEZ. Indonesia has

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<sup>127</sup>Collins argues that China's post-Soviet Union military strategy further involved an offensive approach to achieve security. The approach required a first strike option to gain the initiative early and force a quick solution. *The Security Dilemmas of SEA*, pp. 148.

<sup>128</sup> Donald Seekins, "Burma-China Relations: Playing with Fire," in *Asian Survey*, Vol. 37 No. 6, 1997 pp. 534 has argued that China is Burma's main arms supplier and that China has a considerable military presence there and that its neighbors consider it an expansion of China's aspirations to Great Power status.

<sup>129</sup> The Spratlys refers to a group of 230 or so islets, sandbanks, and reefs, of which only three dozen features are above water level and none of which are more than half a square kilometer in area. See Derek Da Cunha, *Southeast Asian Perspectives on Security*, pp 99.

<sup>130</sup> Alan Collins, *The Security Dilemmas of SEA*, pp 144.

expressed concern that China has laid claim to its Natuna gas field. All claimants, except Brunei, have stationed troops on some of the reefs.<sup>131</sup> Most claimants have bolstered their sovereignty claims by developing tourism on the islands, sending scientists, building fishing ports, constructing lighthouses and awarding oil or gas concessions and begun exploration. China has said that of the one thousand oil and gas drills in the South China Sea, 121 (including 90 belonging to Malaysia)<sup>132</sup> are within its traditional sea border. Violent clashes with Vietnam in 1988 and again in 1994<sup>133</sup> over such claims serve as a reminder of the possibility of armed conflict over this explosive territorial issue.<sup>134</sup>

Given the above, China has been considered a major security concern for MFP in the Mahathir era. But the Mahathir era also saw China undergo a far-reaching economic transformation. Up to three fourths of the Mahathir term coincided with the economic boom in China – a process that had begun in the

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<sup>131</sup> The Philippines stationed troops on five islands in the early 1970s. Troops were stationed on four more islands in the 1980s and in 1996 occupied nine more islands. Its total troop strength was 595. Vietnam had begun occupying the islands right after unification and by 1996 had occupied 25 islands with 600 troops. Malaysia began its occupation in the 1980s, placing 70 troops on three islands by 1996. China began stationing troops in 1987 and had by 1996, occupied 9 islands with 260 troops. Taiwan has troops on one. See *ibid*, pp.145 and Derek Da Cunha, *Southeast Asian Perspectives on Security*, pp 105.

<sup>132</sup> Seven belonging to the Philippines, 17 to Indonesia, and 7 to Vietnam. *Ibid*.

<sup>133</sup> The 1988 clash was over Johnson Reef. It led to the sinking of 3 Vietnamese ships and the loss of 77 sailors. In 1994 Vietnam seized 2 Chinese boats claiming that they had fired on the Vietnamese. *Ibid*, pp.151.

<sup>134</sup> There have been numerous incidents in the Spratlys, some of which had the potential of escalating into armed conflicts. Arrests of fishermen in disputed waters, the planting of markers and their removal or destruction by rivals, shows of force by naval vessels, the firing of warning shots against approaching aircraft, prevention of passage or access to exploration and drilling fields are examples. See Derek Da Cunha, *Southeast Asian Perspectives on Security*, pp 101.

mid 1980s with Deng's economic reforms but derailed shortly by the June 1989 Tiananmen Square massacre. By 1991, China had reeled out of the economic sanctions imposed by the industrialized world and was growing at 10 percent.<sup>135</sup> Between 1994 and 1996 FDI in China exceeded one billion dollars – attracting almost half of the direct investment flowing to emerging economies.<sup>136</sup> For most of the 1990s, China received more FDI than any other country and was ranked second to the US in 1995. Between 1990 and 1995, China's share of exports to OECD countries doubled.<sup>137</sup> From being ranked thirty-second in world trade with a share of world trade at 0.8 percent in 1980, by the mid 1990s China was eleventh with a share of 2.9 percent of world trade. On the occasion of Hong Kong's return to China, the IMF and World Bank forecasted that China was on its way to becoming the world's second biggest exporter as well as a second largest importer.<sup>138</sup> China was expected to be a major player on international markets and its 1.2 billion people – a fifth of the world's population - would be rich enough to make China an important market. All this, according to the World Bank, was to be looked upon as an opportunity.

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<sup>135</sup> Philippe Ries, *The Asian Storm*, pp 168.

<sup>136</sup> In 1997 alone, it was US\$40 billion out of the \$107 billion flowing to emerging economies. *Ibid*, pp. 169.

<sup>137</sup> *Ibid*, pp. 173.

<sup>138</sup> *China in 2020*, The World Bank, 1997.

To summarize, China simultaneously presented itself as a security threat and an economic opportunity to the Mahathir regime. It is thus within this mix of China's military power and economic strength that the regional giant's impact on MFP can be observed.

The Mahathir regime had made economics, trade and development a corner stone of its foreign policy. But it had to contend with Chinese military strength, behavior and suspicions. The one third of Malaysian population that has its origins in China and Malaysia's long and bitter struggle with a communist insurgency supported by Maoist China provided for historical, cultural and ideological dimensions to the threat posed by China. These dimensions provided the prism through which China had been viewed in the pre-Mahathir eras. But there were realities to contend with – Malaysia could never match the military might of China, and the need to co-opt its rich and powerful Chinese minority into its ambitious nation building plans was becoming urgent. Pre-Mahathir Malaysia thus became the first Asean nation to engage China by establish bilateral ties.<sup>139</sup> The Razak regime adopted the one

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<sup>139</sup> Malaysia established ties with China on May 31, 1974. Prime Minister Razak visited China in May 1974 - the first high-level contact of the two governments since Malaya's independence in 1957 – and agreed to an exchange of ambassadors and termination of diplomatic ties with Taiwan. The Philippines did so in June 1975 and Thailand followed a month later. Indonesia, Singapore and Brunei held on until the end of 1990. See Derek Da Cunha, *Southeast Asian Perspectives on Security*, pp. 166 and 170.

China policy, voted in the UN to expel Taiwan from the world body and normalized relations in the mid 1970s - up two decades ahead of its immediate neighbors.

The Mahathir regime thus had the groundwork of ties with a major security threat already laid down. Yet the core objective – continued mitigation of the Chinese threat - remained. The economic boom of China, which coincided with the Mahathir era helped MFP journey the same path towards the same goal, but riding on the modern vehicle of engagement.

The Mahathir regime took the view that China was not a short or medium term threat but a long term one.<sup>140</sup> Officially, it put forth a benign interpretation of Chinese behavior and declared that China was no longer a threat:

“It is high time that we stop seeing China through the lenses of threat and to fully view China as the enormous opportunity that it is. The perception that China is a threat is a popular one. Malaysia itself once nursed this view, but then those were the days when the Communist Party of Malaya drew its inspiration and support from the Chinese Communist Party and when fears of a Chinese fifth column in Southeast Asia were strong...But times have changed dramatically. And Malaysia is one of the countries that recognize these changes. We no longer regard China as a threat. We do not believe in feuds. We cannot allow the past to determine our future forever.”<sup>141</sup>

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<sup>140</sup> Analyst J.N Mak has provided an argument to support the contention this contention of MFP. See his essay, “The Chinese Navy and the South China Sea: A Malaysian Assessment, in *The Pacific Review*, Vol 4 No. 2, 1991, pp. 150.

<sup>141</sup> Mahathir, Speech titled “Malaysia and China in the 21<sup>st</sup> Century,” delivered at the International Trade and Investment Conference in Kuala Lumpur, on January 23, 1995.



Mahathir called for a re-assessment of regional perspectives with regard to China.

“We need to fundamentally re-asses our notions about the so-called Chinese threat...How many times in the past has China sent its armed forces across borders to invade and occupy? On the other hand, how many times has China been attacked and parts of it been occupied? How many colonies did China establish? How many military bases does China maintain overseas to perpetuate its hegemony? And with how many countries does China have treaty alliances, for defense or otherwise?”<sup>142</sup>

And he advocated a benign view in relation to China’s military expenditures.

“Much has been made regarding the increase in China’s defense expenditure...The obsession with (such) increases...obscures many other important things. For instance, it obscures the fact that Japan... and South Korea spent more than China...The budget allocation for the US for the same year was ten times more...If despite their heavy military expenditures, the US and Japan can be considered benign and not threatening, perhaps we can also be allowed to sleep well, without too many nightmares, after looking at China’s military expenditure.”<sup>143</sup>

Mahathir also lay to rest fears stemming from China’s communist ideology.

“Nobody nowadays seriously entertains the view that China is bent on exporting its communist ideology. We can lay to rest the threat of ideological subversion and wholesale conversion.”<sup>144</sup>

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<sup>142</sup> *Ibid.*

<sup>143</sup> *Ibid.*

<sup>144</sup> *Ibid.*

And delivered the government's official stand on China:

"For these and other good reasons, Malaysia refuses to see China as a military or political threat. We prefer to see China as a friend and partner in the pursuit of peace and prosperity for ourselves as well as for the region."<sup>145</sup>

It now remains to look at the impact of China as an external factor on MFP as a whole. While the specific policy initiatives are left to chapters 5 and 6, the remainder of this section looks at the broad ways in which China affected MFP in the Mahathir era.

First, China provided MFP the lessons for the use of economic initiatives in matters that primarily concern security. While the pre-Mahathir regimes relied, at various times, on a mixed formula of diplomacy, neutrality, and balance of power to tackle its security problems relating to China, MFP in the Mahathir era relied on economic engagement - expecting economic growth and integration to act as a constraint in Chinese ambitions.

Second, China provided a dimension of practicality to MFP. Having no military and economic means, either by itself or in concert with others in the region to balance Chinese might effectively, MFP had sought to maintain a constructive partnership with China in the belief that China needs good relations to grow economically. The basic premise of MFP's dealings with China was that

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<sup>145</sup> *Ibid.*

tying it to the world economy would ensure it acted according to the norms of international behavior. MFP further sensed a vested interest in the success of China's market experiment. A prosperous and open China was less expected to spring surprises on any of its neighbors. The alternative to such a practical approach would have been to divert greater proportions of scarce resources from social and economic requirements to defense and security.

Third, China helped push MFP into the arms of the ARF – an instrument initially opposed by Malaysia for fear of big power meddling in regional affairs. The Mahathir regime believed that to work effectively, economic engagement of China had to be matched by diplomatic engagement. The MFP goal was therefore to integrate China into the ARF and thus expect it to play by normative rules. MFP saw success in the fact that China had agreed to engage in CBM discussions and agreed to put the South China Sea dispute on the ARF agenda. Additionally, the Chinese published defense white papers and defense policy statements when participating in CBM initiatives. In 1997, Chinese naval vessels visited Malaysia for the first time. Seen collectively, MFP's faith in the ARF has allowed for the creation of some measure of transparency in China's military plans and aims, and this lessened suspicions regarding the same.

MFP has strived, through the ARF process, to obtain a commitment from Beijing that force will not be used to settle the Spratlys issue. At the 30<sup>th</sup> Anniversary Asean meeting at Kuala Lumpur in 1997, China made clear its resolve to keep the sovereignty issue off the ARF agenda, but pledged to resolve its disputes through friendly consultations. However, in 1998 China constructed a heli-pad, gun embankments and berths for ships at the Spratlys Island of Mischief Reef for military use<sup>146</sup> placing doubt over its pledge not to use force.

Such moves lend credence to the MFP position that China remains a long-term threat, and that it may be bidding for time and would not hesitate to resort to force in the long term. There are thus elements of MFP that seem to suggest the need for some sort of containment side-by-side engagement. While no MFP initiatives can be categorically labeled as such, MFP's support for ARF's decision to include India<sup>147</sup> – not an original member - (and the US) to balance China does seem to have been made along such lines.

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<sup>146</sup> The Chinese claimed they were merely repairing shelters they had established for fishermen on the island. See *The Far Eastern Economic Review*, December 24, 1998.

<sup>147</sup> India has openly described China as its number one long-term threat, given its assistance to rival Pakistan and territorial dispute with the communist country. Defense Minister George Fernandez said so in so many words just before India carried out a series of nuclear explosions in 1998. See *The Far Eastern Economic Review*, May 21, 1998.

#### 4.5 CONCLUSION.

This chapter has sought to examine the major external factors that have influenced the shape, substance and direction of MFP during the Mahathir era. The three major external factors that have been analyzed include first, the end of the cold war and the demise of communism; second, the expansion of globalization and third the impact of selected other nations. The third factor has involved an attempt to study the impact of Malaysia's closest neighbor - Singapore, the region's economic powerhouse - Japan, and military giant - China on MFP. This section summarizes the impact of the above external factors on the major directions of MFP.

The demise of the cold war translated into an automatic death for the concepts of equi-promiximity and neutrality - cornerstones of MFP for decades. It caused NAM to lose its *raison d'etre* and it ended the business of playing up one bloc against the other for benefits. The post-Cold War world was unipolar, and MFP - freed from the shackles of neutrality and forced to come to terms with the dominance of the USA in the global power patters - allowed itself to be as close to or as distant from the USA and the West without having to overly justify policy choices or worry about the need to balance them. MFP was thus able to take a strong pro-USA stance in the latter's fight against terrorism. It was

also able to build strong trade and investment ties with the USA and Western European countries.

But the most important effect of the end of the Cold War was that it provided an additional impetus MFP's commercial emphasis and focus. In some of the CIS countries, MFP used the call of Islamic brotherhood to get these new states to open their doors, while closer at home, the *modus operandi* was via Asean. MFP pursued, aggressively and successfully, the agenda of allowing Vietnam, Cambodia, and Laos to take up membership of the regional body with the hope of being accorded investment and business preferences.

Globalization proved much more complex than the demise of the Cold War in terms of its effects on MFP. MFP had a difficult time dealing with globalization. It chartered directions to attract foreign capital and technology while keeping out "negatives". It churned out relevant rhetoric against elements of the process and ideology deemed detrimental to national interests. And it sought to galvanize like-minded states to band together within global organizations such as the WTO, the G-15 or Asean to slow the onslaught of the phenomenon. As the forces of globalization became impossible to control, MFP sought refuge in regionalism. Malaysia believed Asean had the capacity to hold at bay, on its behalf, some of the forces of globalization. When the 1997 financial

crisis – seen by Mahathir as caused by the forces of globalization – struck, MFP set out on an isolationist path.

MFP was further impacted upon by the conduct of Singapore, Japan and China. Singapore impacted substantively in MFP's designs for new market penetrations, foreign investment and technological know-how attractions as a serious competitor. MFP had to deal with Singapore as an adversary in the EAEG issue and in its quest for market and investment penetration into new members of Asean.

Singapore further factored substantively in MFP's calculations of threat and security perceptions. The city-state became Malaysia's primary external threat concern in the immediate region and MFP thus took on a facilitative role in Malaysia's arms buildup and military modernization program.

Singapore's ties with the USA also impacted on MFP. These ties pushed MFP to support the ARF despite its apprehensions about super power involvement in the region's security. Despite MFP's traditional misgivings about US bases, the desire to balance Singapore-US ties eventually gave way to establishing US Navy repair facilities at Lumut. MFP's pro-US posture during the latter's war on terrorism can also be traced to capitalize on a similar desire.

Japan impacted MFP by virtue of its massive volume of FDI in Malaysia, it being Malaysia's leading trading partner, it possessing the technology that Malaysia sought and its provision of a non-Western developmental model for the Mahathir regime to emulate.

Japan provided the impetus for MFP to move further away from its traditional partner and former colonial master, Britain, and move closer instead towards the Eastern countries such as Japan, Taiwan, and Korea and to a lesser extent China. Japan replaced Britain as Malaysia's closest ally and emerged as the preferred model for growth and development. MFP thus sought to play its role in facilitating the model's transplantation on to Malaysian society.

Japan further provided an added impetus towards the emerging commercial and developmental focus of MFP in the Mahathir era. Attracting yen FDI, improving trade, facilitating technology transfers, seeking out Japanese partners for Malaysian-Japanese joint ventures and setting in place frameworks for the emulation of the Japanese business practices became the focus of MFP.

Finally, Japan influenced the institutional structure of Malaysian diplomacy. MFP's two well-equipped organizations - MITI and MATRADE – set up with the express purpose of promoting foreign investment and trade were



modeled after Japan's all-powerful and independent MITI side by side its Ministry of Foreign Affairs.

China impacted MFP in both the economic and security realms. The military superpower provided MFP the lessons for the use of economic initiatives in matters that primarily concerned security. MFP in the Mahathir era thus relied on economic trends and issues to resolve its dilemma of national security vis-à-vis China, expecting economic growth and integration to act as a constraint in Chinese ambitions.

China also provided a dimension of practicality to MFP. Having no military and economic means, either by itself or in concert with others in the region to balance Chinese might effectively, MFP had sought to maintain a constructive partnership with China in the belief that China needed good relations to grow economically. MFP premised its dealings with China on the notion that a China that was tied to the world economy ensured it acted according to the norms of international behavior.

MFP further sensed a vested interest in the success of China's market experiment. A prosperous and open China was less expected to spring surprises on any of its neighbors. The alternative to such a practical approach would have

been to divert greater proportions of scarce resources from social and economic requirements to defense and security.

Finally, China helped push MFP fully into the arms of the ARF. The Mahathir regime believed that to work effectively, economic engagement with China had to be accompanied by diplomatic engagement. The MFP goal was thus to integrate China into the ARF and expect it to play by normative rules and not use force to settle the Spratlys dispute. The presence of China's rivals in ARF also provided some sort of balance cum containment side-by-side engagement. It was in this regard that MFP worked for India to be included into the ARF in addition to the other Chinese rivals – USA, Russia and Japan.

## **CHAPTER 5: THE OUTPUTS OF MALAYSIAN FOREIGN POLICY 1981-2003: BUY BRITISH LAST, COMMONWEALTH POLICY, LOOK EAST AND THIRD WORLD SPOKESMANSHIP**

### **5.1 INTRODUCTION**

This chapter and the next attempt to outline and explain a variety of MFP outputs during the Mahathir era. As proposed in Chapter 1, policy outputs are examined in terms of their primary objectives, actions taken and rhetoric. A comprehensive explanation of each of these outputs is attempted by linking them to the factors discussed in chapters 2 to 4. That Mahathir's idiosyncrasy, the external environment and the nation's unique domestic environment came together into a nexus to create the gamut of MFP outputs is the underlying notion of both these chapters.

### **5.2 BUY BRITISH LAST AND THE COMMONWEALTH POLICY.**

Two months after coming into office, Prime Minister Mahathir instructed that all government purchases from Britain be referred to his office for final approval. He further mandated that all such requests be accompanied by an

alternative bid from a non-British source. The premier announced that British products would be purchased only as a last resort.<sup>1</sup>

The policy, known as "Buy British Last" (BBL) indicated the regime's desire for a radically different direction in Malaysia's ties with Britain. Malaysia was a member of the British Commonwealth since independence in 1957. It had joint defense arrangements with Britain and considered it a close ally. British forces had defended Malaysia during the *Konfrontasi* with Indonesia and throughout the Communist insurgency. Britain was Malaysia's major trading partner, and its biggest investor.<sup>2</sup> The Malaysian political and education system was modeled upon the British one. Britain was the number one choice for Malaysian students who wished to study abroad. As a result Malaysians formed the largest group of overseas students in Britain.<sup>3</sup>

BBL thus reflected a major shift in ties with Britain. It also reflected Malaysia's changing relationship with the Commonwealth as an organization. In the process of justifying BBL, Mahathir dismissed this organization of former

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<sup>1</sup> *Far Eastern Economic Review*, October 9, 1981.

<sup>2</sup> Britain was the biggest overall investor right until 1983. See Phang Hooi Eng, *Foreign Direct Investment*, pp.2.

<sup>3</sup> Seventeen thousand in the year Mahathir took office. Chew Huat Hock, "Changing Directions in Foreign Policy Trends," in *Contemporary Southeast Asia*, December 1982, pp. 349.

British colonies as “too much talk with no tangible results.”<sup>4</sup> He declined to attend the Commonwealth’s biennial Heads of Government Meeting (CHOGM) saying, “we can achieve more here in the country than at such meetings which are just talk.”<sup>5</sup> The premier further asked MFA and ISIS to prepare papers on the usefulness of continued Commonwealth membership<sup>6</sup> and relegated links with the Commonwealth to last place in order of foreign policy priorities.

The British government sent Foreign Secretary Lord Carrington and Defense Minister John Notts to Kuala Lumpur five months into the policy, in February of 1982. Having failed to make any impact, Prime Minister Thatcher took it upon herself to bring about an end to BBL and Malaysia’s estrangement with the Commonwealth. She met Mahathir in London in March 1983 and the latter announced the end of the BBL upon his return. By April of 1985, when Thatcher visited Malaysia it appeared that there had been a marked improvement in bilateral relations as well as on the issue of the Commonwealth.

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<sup>4</sup> Muhammad Muda, “Malaysia’s Foreign Policy and the Commonwealth,” *The Round Table* 320, pp. 459.

<sup>5</sup> Mahathir stayed away from the 1981 and 1983 CHOGMS. *Asiaweek* October 9, 1981 and *The Far Eastern Economic Review*, September 25, 1981. He however continued to attend regional CHOGMS – Fiji in 1982 and PNG in 1984.

<sup>6</sup> Both reports argued for continued membership on the grounds that the Commonwealth provided Malaysia with another international platform on which its voice could be heard as well as providing access to certain types of cooperation. See David Camroux, “Looking East and Inwards: Internal Factors in Malaysian Foreign Relations during the Mahathir Era, 1981-1994, Australia: Griffith University, 1994, pp. 26 & 27.

Mahathir attended the 1985 CHOGM<sup>7</sup> and at the 1987 meeting surprised member states and even the MFA<sup>8</sup> by announcing Malaysia's willingness to host the 1998 Commonwealth games and the 1989 CHOGM in Kuala Lumpur.

Malaysia hosted the biggest and perhaps the most sumptuous CHOGM costing \$36 million,<sup>9</sup> but more significantly, the regime was "buying British at last." In March 1988 British Secretary for Defense, George Younger visited Malaysia to sign a protocol for aid and arms sales to Malaysia. Thatcher followed six months later and a memorandum of understanding on arms sales worth 1.3 billion pounds<sup>10</sup> was signed between the two countries. Mahathir visited Britain in April 1989 to sign an aid agreement for the construction of a 600-megawatt hydroelectric power station in Kelantan. Known as the Pergau Dam, it cost Britain £234 million and proved to be the largest amount ever awarded for a single project.<sup>11</sup>

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<sup>7</sup> Mahathir did say however that his main reason for attending the 1983 meeting was to launch an attack on South Africa's apartheid policy. See *The New Straits Times*, October 15, 1985.

<sup>8</sup> Malaysian diplomat Muhammad Muda says: "The announcement even surprised the Malaysian Foreign Ministry, which many believed had not been consulted for its views." See "Malaysia's Foreign Policy and The Commonwealth," pp. 453.

<sup>9</sup> *New Straits Times*, June 30, 1989.

<sup>10</sup> David Camroux, "Looking East and Inwards," pp. 26

<sup>11</sup> *Sunday Times*, February 20<sup>th</sup>, 1994.

Five years later, in January of 1994, both the arms agreement and the Pergau Dam issue became the focus of British government investigations. The inquiry's findings – linking the Dam agreement as a “sweetener” for the arms deal and the play up by the media with its allegations of bribe-taking by Mahathir and an expose' of business and political misconduct in Malaysia led to bilateral relations being dramatically disturbed once again.

Days after the conclusion of the inquiries, and just hours after Malaysia had taken delivery of the first batch of 28 British Aerospace Hawk jet-fighter trainers, which had been procured under the arms deal that signaled the end of BBL, Mahathir informed Britain's High Commissioner, Duncan Slater that the government would no longer award new contracts to British firms. Mahathir's deputy and finance minister Anwar announced that the cabinet had decided on the measures and justified it as retaliation for allegations of corruption against the Mahathir regime in the British media.<sup>12</sup> Mahathir expressed his displeasure over the British government's failure to correct the record that the aid for the Pergau Dam was in the form of a concessionary loan and not a grant.

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<sup>12</sup> *New Straits Times*, February 26, 1994.

By all measures, this was Buy British Last II, and this time more than one billion pounds of contracts<sup>13</sup> that were under negotiation with Malaysia (including one for the multi billion dollar KLIA were in jeopardy. BBL II lasted 7 months and created bilateral tensions. But by 1997 relations had normalized and Mahathir went on record to say Britain was Malaysia's "most comfortable friend."<sup>14</sup>

### 5.2.1 Explaining Buy British Last.

It is argued that this punitive, retaliatory and risky policy is best understood through an examination of the interaction of a variety of factors stemming from Mahathir's idiosyncrasy, domestic circumstances and systemic events. It is further argued that the different manner in which these factors interacted and played out resulted in the significant differences that existed between the intensity and duration of BBL II and I.

As argued in Chapter 2, Mahathir was not very well disposed towards Britain. He had not studied there (as had all of his three predecessors) and considered Britain little more than a decrepit colonial power. "Britain is now

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<sup>13</sup> Micheal Leifer, "Anglo Malaysian Alienation Revisited," in *The Round Table*, 331, 1994, pp. 352.

<sup>14</sup> RS Milne and DK Mauzy, *Malaysian Politics Under Mahathir*, pp.140



known as a country which has lost the discipline it had in the days of its glory,"<sup>15</sup> he said. And that "British industry and economy has deteriorated...Britain has become a nation whose manufacturers and supplies cannot be depended upon."<sup>16</sup> He once told Parliament:

"Britain, Sir is near bankrupt. The pound is tottering...the Empire, the blissful source of booty is now disappearing...And so for lack of anything else, the old lion must try and play metropolitan power with us."<sup>17</sup>

He had once accused the pro-West Tunku of "still being tied to the apron strings of Britain."<sup>18</sup> As premier himself, he believed very much in being "masters of our own fate" as his words to the pre-Cold War NAM reveal:

"All of us now claim to be masters of our own fate and fortune. If eloquence is the yardstick, our voices ring out loud and clear that we are free. But let us not delude ourselves. While we are legally free, the process of economic and political emasculation has rendered that freedom less than real. We cannot act freely because we have been so progressively emasculated that we will collapse if deprived of the crutches of our former imperial masters."<sup>19</sup>

Such beliefs interacted with Mahathir's notions of Malay and Malaysian nationalism, which desired both the take over of selected British companies in

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<sup>15</sup> Mahathir, *The Challenge*, pp. 135.

<sup>16</sup> Mahathir, Speech at UMNO General Assembly Kuala Lumpur, June 25, 1981.

<sup>17</sup> Malaysia, Dewan Rakyat, Parliamentary Debates III, 2, June 16, 1966. Quoted in Khoo Boo Teik, *Paradoxes of Mahathirism*, pp. 90.

<sup>18</sup> David Camroux, *Looking East and Inwards*, pp. 25.

<sup>19</sup> Mahathir Mohamed, Speech at the 8<sup>th</sup> NAM Conference, Harare, 1986.

Malaysia and the scaling back, where possible, of British-Chinese joint ventures. The substitution of purely British and British-Chinese joint venture corporations in the country with government held or foreign-Malay joint ventures formed the essence of Mahathir's early nationalism and his faith in the NEP. Leadership of the country provided him the opportunity and means to translate such philosophy into policy, and Britain, with all its historical colonial baggage became the convenient soft foreign target for Mahathir.

Mahathir's non-disposition towards Britain extended to the Commonwealth. In a speech given on the occasion of British Prime Minister Thatcher's visit to Malaysia, Mahathir brusquely told his guest that the Commonwealth was a "creature of the past," for which reason he had relegated the organization to last place in order or priority.<sup>20</sup>

During the prelude to BBL II, Mahathir openly displayed a sense of bitter resentment of what he considered a malicious and patronizing British press. His furious lashing out was proportional to the focus on his reputation for irascibility by the British press. Mahathir explained BBL II in terms of his frustration: "We are angry at the British press and we have no way of taking action against the

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<sup>20</sup> *New Straits Times*, April 6, 1985.

British press.”<sup>21</sup> The premier demanded an apology from the *Sunday Times* for its bribe allegations, saying: “it is quite clear from the inference that I had received money in order to give a contract to (British firm) Wimpey.”<sup>22</sup> Editor Andrew Neil refused on grounds that the paper had not implicated Mahathir personally. Neil instead urged the British government not to give in to Mahathir because it would “serve only to reinforce Dr Mahathir’s boast that bullying gets him noticed and produces results,”<sup>23</sup> and the paper followed instead with allegations of corruption and cronyism in the Pergau Dam construction. Mahathir responded by writing a long and angry letter to *The Financial Times*, saying: “for Malaysia, the die is cast. No contracts in exchange for British press freedom to tell lies.”<sup>24</sup> *The Guardian* captured the Mahathir factor in the episode by suggesting that the hubris of one man was at the root of the Malaysian-British tensions. “The corruption taunt touched a raw nerve in a leader driven by a desire for local and international political acceptance and recognition of his ambitions for Malaysia.”<sup>25</sup>

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<sup>21</sup> *New Straits Times*, March 2, 1994.

<sup>22</sup> *New Straits Times*, March 5, 1994.

<sup>23</sup> *The Times*, March 4, 1994.

<sup>24</sup> *The Financial Times*, March 17, 1994.

<sup>25</sup> *The Guardian*, March 2, 1994.

Micheal Leifer aptly captures the role of Mahathir the person in Buy

British Last II:

“Anglo-Malaysian relations had been brought to their lowest point by an angry and punitive response to British investigative journalism which had offended personal and national dignity. Dr Mahathir seemed determined to inflict a collective punishment on British industry for the delinquencies of a press...(D)espite knowing full well the inability of the British government to control the press, Dr Mahathir was determined to teach Britain the lesson that a national price would have to be paid for tolerating its irresponsible overindulgence.”<sup>26</sup>

Neil’s removal from the *Sunday Times* three months later prompted an announcement from Mahathir that he had noticed an improvement in the British media’s reporting on Malaysia, adding that if the British press no longer printed lies, there was no reason why Malaysia could not resume business with British companies.<sup>27</sup>

Beyond idiosyncrasies, Buy British Last embodies the leadership style of the prime minister. It was the product of the non-consultative, personal, risky, combative and retributive style of the prime minister. The policy embodied within itself the sense that Britain was an opponent that needed a combative

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<sup>26</sup> See Micheal Leifer, “Anglo Malaysian Alienation Revisited,” pp. 354.

<sup>27</sup> Neil was transferred to America’s Fox News Channel. See Micheal Leifer, “Anglo Malaysian Alienation Revisited,” pp. 359

dose of medication. Shortly after announcing BBL I, Mahathir underlined the notion of reciprocity:

“If they (the British) can change the rules of the game after we have mastered them (referring to LSE’s response to the Guthrie take over) so can we change the rules of the game.”<sup>28</sup>

Mahathir’s retributive style is further seen from his insistence during the course of the Anglo-Malaysian tensions that the British High Commissioner return his official residence, the Carcosa, to the Malaysian government.<sup>29</sup> Premier Tunku had gifted the residence, a colonial building occupying prime real estate atop a hill in Kuala Lumpur to the British diplomatic mission in early post-independence period. Ensuring its return amounted to retribution at the very least.

It is also in line with Mahathir’s style that the bureaucratic apparatus was not consulted. BBL 1 appeared as a direct Mahathir directive. Malaysian diplomat Mohamad Yusof revealed that BBL and the Commonwealth Policy were formulated without consultation with MFA, and that they “ran counter to the wisdom of MFA.”<sup>30</sup> Deputy premier Musa Hitam has said that BBL 1 was not

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<sup>28</sup> *The Times*, October 19, 1981.

<sup>29</sup> *The Far Eastern Economic Review*, April 13, 1983.

<sup>30</sup> Mohamad Yusof Ahmad, *Continuity And Change In Malaysia’s Foreign Policy, 1981-1986*, pp. 351 and 352.

debated in Cabinet.<sup>31</sup> Even though BBL II was announced by the then deputy Prime Minister Anwar Ibrahim as a cabinet decision, its origins lay in a Mahathir directive as well. One may argue that asking the MFA and ISIS to write position papers amounted to consultation. But both bodies were asked to produce position papers, not on BBL per se, but on the utility of the Commonwealth, and that too, after the policy had been in effect. While the expectation may have been for the position papers to justify the policy, that was not to be, causing the findings of both agencies to be ignored.<sup>32</sup>

An analysis of a number of external events, which preceded Mahathir's adoption of BBL, helps provide a fuller picture. In June 1981, the Malaysian government, in an effort to raise the price of tin covertly purchased US\$750 million worth of the metal on the London Metal Exchange (LME).<sup>33</sup> The ploy failed, however, because the LME changed its rules allowing traders to pay a fine instead of defaulting on their contracts – a move which brought down the price of tin and left the largest producer of tin in the world with millions worth of

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<sup>31</sup> Musa Hitam quoted in Mohamad Yusof Ahmad, *Continuity And Change In Malaysia's Foreign Policy, 1981-1986*, pp. 352.

<sup>32</sup> The findings were not made public. The *Far Eastern Economic Review* of November 5, 1987 quoted sources saying that the MFA report argued for staying in the Commonwealth, while the ISIS report provided arguments for a variety of scenarios ranging from quitting the Commonwealth, playing an inactive role, and taking a dominant position within the organization.

<sup>33</sup> See Jomo, K.S., *Undermining Tin: The Decline of Malaysian Pre-eminence*, Sydney: Transnational Corporation Research Project, 1990, pp. 73-74.

expensively acquired tin. In July, Guthrie and Dunlop two of the biggest British corporations in Malaysia sold their trading and plantation subsidiaries to Multi-Purpose Holding – an investment arm of the Chinese based political party MCA. The sale was conducted without the knowledge of the government and tilted the balance of ownership against its Malay shareholders. Mahathir believed that the British deliberately offered equity to non-Malay shareholders as a means of preventing Malays from acquiring their companies.

“We are not saying they cannot buy, but Guthrie should know better. The same with Dunlop, they should know better, in fact PNB was negotiating with them to buy.”<sup>34</sup>

The immediate event that prompted the BBL was hostile British reaction to Malaysia's take over of Guthrie Corporation by PNB – a major government investment agency entrusted with the job of accelerating the restructuring objectives of the NEP. The take over further signaled impatience with the hitherto employed method of using regulatory measures to pressure British companies to “voluntarily” reorganize their equity structure. It involved the staging of a swift and dramatic “dawn raid” on Guthrie shares at the LSE – an

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<sup>34</sup> *Far Eastern Economic Review* October 30, 1981.

event engineered by one of Mahathir's trusted friends.<sup>35</sup> PNB managed to acquire sufficient Guthrie shares for a general takeover and its fate persuaded other British companies<sup>36</sup> to restructure and sell of the majority of their assets to state corporations.

Guthrie, the LSE and the British government reacted badly to the take over. Guthrie described the operation as "an act of nationalization, whether front door or back-door,"<sup>37</sup> while the LSE changed the take over code. The British government held that the take over was a subtle act of nationalization.<sup>38</sup>

Mahathir was stung by these reactions. He argued that the nationalization charge was aimed at frightening away foreign investors,<sup>39</sup> and that

"there is still a colonialist mentality prevailing – and the British should get rid of it. If a company is up for grabs, then anybody should be able to go

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<sup>35</sup> The raid was orchestrated and conducted by Mahathir's trusted ally and local tycoon T Ananda Krishnan, who had no business connections with PNB. See *The Financial Times*, London, October 7, 2002.

<sup>36</sup> Sime Darby, Dunlop, Barlow and Harrison and Crossfield. Sime Darby was taken over by a series of boardroom maneuvers that ended in the ouster of British expatriate directors, and Harrisons and Crossfield gave up its majority stake in 1982. Barlow sold its majority of shares to PNB, while Dunlop sold theirs to the highest bidder, the MPH – MCA's investment arm. See Peter Searle, *The Riddle of Malaysian Capitalism*, pp. 72-73, and Chew Huat Hock, "Changing Directions in Foreign Policy Trends," pp. 355.

<sup>37</sup> *Far Eastern Economic Review*, September 18, 1981 and *Asiaweek*, September 25, 1981.

<sup>38</sup> Chew Huat Hock, "Changing Directions in Foreign Policy Trends," pp. 353.

<sup>39</sup> Mahathir Mohamed, Speech at the 5<sup>th</sup> General Assembly of the Organization of Asian New Agencies, delivered at Kuala Lumpur on November 3, 1981.



for it...If we have the money we buy it. We don't nationalize because it is ethically wrong. But must a British company remain one forever?"<sup>40</sup>

Mahathir further construed LSE's move to change the code as a deliberate attempt to prevent Malaysia from using legitimate means to acquire control of other British assets such as Dunlop, Barlow, and Harrisons. He pointed out that the British has never made such a fuss previously when wealthy Arabs, Americans and the Japanese bought over British companies listed on the LSE.

There were two other external factors that contributed to BBL I. The first was the British government's decision to raise three fold, the tuition fees for overseas students – a move which affected the government directly because a large number of the Malaysian students in Britain were government sponsored. The British government, in an austerity drive, announced the withdrawal of an estimated £100 million<sup>41</sup> of subsidies to foreign students, and this resulted in the fee hike. This meant that students from EEC countries paid lower fees than Malaysians. The move came at a time when lack of places in local universities prevented an estimated three out of four qualified Malaysians from pursuing

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<sup>40</sup> *Far Eastern Economic Review* October 30, 1981. Mahathir has never favored nationalization. In *The Challenge*, he set out a forceful argument against nationalizing foreign corporations in Malaysia. See pp. 121-9.

<sup>41</sup> *New Straits Times*, May 27, 1981.

tertiary education at home.<sup>42</sup> The second relates to Britain's refusal to grant additional landing rights at Heathrow to Malaysia's national airline. That both issues were part of the BBL I decision making is evident from that fact their resolution was part of the first post-BBL Mahathir-Thatcher talks. The British government set up a \$160 million fund to aid Malaysian students in Britain and Thatcher agreed to the additional landing rights.<sup>43</sup>

A number of external events and circumstances preceded BBL II as well. In January 1994, reacting to complaints in the House of Commons regarding irregularities in Britain's aid and trading practices, the PAC opened an investigation into government aid activities of the ODA. A similar investigation was conducted by the National Audit Office. The Audit Office's report concluded that the Pergau Dam aid package contained irregularities, but the PAC heard more damning evidence before it concluded that the financial terms for the Dam were "most surprising and unacceptable."<sup>44</sup> Sir Tim Lankester of ODA told the PAC that the aid package was an abuse of the aid program. The British Press sought to link the Dam project with the arms deal and carried allegations of

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<sup>42</sup> Out of some 26,000 applications for degree and diploma courses in Malaysia's five universities, only about 6,000 were admitted. Lim Kit Siang, *Time Bombs in Malaysia*, Kuala Lumpur: DAP, 1978 (Second Edition) pp. 9.

<sup>43</sup> *The Far Eastern Economic Review*, April 14, 1983.

<sup>44</sup> *The Seventeenth Report of the Committee of Public Accounts, Pergau Hydroelectric Project*, London: HMSO, 1994, quoted in Micheal Leifer, "Anglo Malaysian Alienation Revisited," pp. 353.

bribes to Malaysian agents of British companies.<sup>45</sup> Any direct link between the arms deal signed between Mahathir and Thatcher in 1988 and the Pergau Dam MOU would have been in breach of British laws<sup>46</sup> and Alastair Goodlan, Minister of State at the Foreign and Commonwealth Office virtually admitted to such links in the House in February 1994. He revealed that George Younger's arms sale protocol with Malaysia "contained figures relating amounts or percentages of civil aid to amounts of arms purchases."<sup>47</sup> In February 1994, *The Guardian* published a leaked copy of the arms deal agreement causing great embarrassment to both the British and Malaysian governments. Days later, the *Sunday Times*<sup>48</sup> ran a story which claimed that British construction company George Wimpey International had offered a US\$500, 000 bribe meant for Mahathir. A week later, Mahathir announced BBL II.

The failure of British officials to protect Malaysian interests during the inquiries acted as a catalyst in fueling Mahathir's anger. The refusal by the British government to put the record straight about the Pergau Dam aid which took the form of a concessionary loan and not a grant was considered an act of

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<sup>45</sup> *The Sunday Times*, January 23, 1994.

<sup>46</sup> The Overseas Aid Act of 1980.

<sup>47</sup> Micheal Leifer, "Anglo Malaysian Alienation Revisited," pp. 353.

<sup>48</sup> February 20, 1994.

betrayal by the Mahathir regime. That the British government did nothing to blunt the media's relentless attacks on Mahathir's integrity angered the prime minister to the point of retaliation. The British premier's condescending comment, immediately after the policy was announced, to the effect that the reason Malaysia was prosperous had to do with investment and trade of British companies probably confirmed for Mahathir, that Britain had yet to expunge its colonial mentality.

Given the strong role of external factors in the precipitation of BBL, it is worth mentioning that external factors played a role in its termination as well. Singapore's massive armament, and its forward defense posture had forced the Mahathir regime to undertake a major armed forces modernization and weapons acquisition exercise to neutralize this threat from the south. As argued in Chapter 4, the Mahathir regime had begun to crystallize this armament policy by the early 1980s. Traditional military ties with Britain made it the most logical choice for any upgrading exercise. This meant that BBL 1 could not go on for too long. The termination of the policy in the form of the billion pound arms deal in 1988 lends credence to the role of an external security threat in bringing about an end to BBL 1.

Domestic issues that framed the period of BBL II and I interacted forcefully with the idiosyncratic and systemic sources of the policy. The element of regime maintenance in relation to the tenure of the prime minister is important in itself. During BBL I, Mahathir had occupied the country's top position for a relatively brief period. He thus had the political motivation to put his personal as well as his regime's stamp both at home and abroad by picking on a soft external target for which he harbored publicly declared resentments. The infancy of his leadership and the need for quick recognition thus combined effectively to precipitate BBL I in the punitive and retributive essence that it came to acquire.

BBL II however, came into Mahathir's 13th year in power, by which time he had already made his political mark. At home he was the undisputed leader – having won three general elections and emerged winner from his conflict with the monarchy and judiciary. Internationally he had acquired the acclaim of a Third World Spokesman. He could thus logically afford to forgo punitive and retaliatory action. But there existed specific problems that posed a challenge to regime stability. UMNO elections that were held just months prior to BBL II had been swept by Anwar and his "vision team." Even Mahathir's deputy and trusted ally Ghafar Baba had to bow out, leaving Mahathir's men in the minority

of party posts.<sup>49</sup> Mahathir was thus not about to let the British press worsen his loosened grip on his party and by consequence, the nation. That this was his practical concern can be discerned from the justifications he provided to his anger at the British press:

“If they (the British press) are able to reduce the people’s confidence in the government leadership, then the integrity and effectiveness of the government will be adversely affected...If the accusation (of bribe taking) is not denied, Malaysians and even others will believe the allegations are true. Then the people’s confidence in the government will wane.”<sup>50</sup>

The regime’s international image concerned Mahathir too. “More than that, Malaysia’s strong voice in the international arena will be muffled.”<sup>51</sup>

BBL I in particular, had other overarching domestic concerns. The objectives of the NEP required government action to increase the Malay share in the nation’s wealth. Although this was to be achieved through new creation of wealth and not by re-distributing existing equity, an overzealous interpretation advocated the limiting of non-Malay participation. BBL served this kind of interpretation in two ways. First it sought to limit Chinese participation by limiting or ending British-Chinese joint partnerships. Second, the policy, when

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<sup>49</sup> The UMNO General Elections of November 1993.

<sup>50</sup> Bernama reports in the *New Straits Times*, March 16, 1994.

<sup>51</sup> *Ibid.*

reversed, allowed for the creation of British-Malay joint corporations to fill the vacuum – a move that served NEP directly. The take over of Guthrie, Harrisons and Crossfield and Dunlop for instance, did not mean an end to British investments, for they could reinvest in accordance with the new equity laws. But the takeovers did mean an end to actual or potential Chinese control of these big and profitable entities. By PNB's reckoning, the Malays would need to invest \$2 billion annually<sup>52</sup> to reach NEP's targets and aggressive action to take over British firms and their shares was justified. The Mahathir regime thus saw the British action to prevent take-overs as attempts to frustrate the NEP's objectives. Mahathir alluded to the refusal of the British to understand or appreciate NEP objectives during one attempt to justify his condemnation of the Commonwealth:

"The Commonwealth I criticize because far too often it `did not live up to his name. There is nothing common about the wealth of the Commonwealth. Often there is not even a great wealth of understanding between us. Thus the rich among us frequently refuse even to understand the problems faced by the poor – even when the problem is of their own making."<sup>53</sup>

From the regime's perspective, the fee-hike issue is also related to NEP. A great number of Malaysian students affected were government-sponsored

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<sup>52</sup> *New Straits Times*, March 19, 1982.

<sup>53</sup> Mahathir Mohamad, Speech to the 33<sup>rd</sup> Commonwealth Parliamentary Conference in Kuala Lumpur, on September 1, 1987

Malays. They had been sent abroad in large numbers under NEP auspices in order to help close the gap between Malay and non-Malay professionals. British action that selectively affected Malaysians was thus also seen as an attempt to frustrate the NEP' goals of educating as many Malays as possible.

That restructuring British ventures (and not putting an end to them) was at the heart of the take-overs is seen from the fact that new and bigger British joint ventures that came about when BBL was reversed, such as the \$1.4 billion Antah Bi-Water and the \$6 billion Indah Water Consortium were in accordance with 51 percent Malay equity. The British had eventually come around to understanding and appreciating the NEP and the Mahathir regime worked with the Thatcher government to bring into existence these new joint ventures.<sup>54</sup>

Domestic circumstances also help explain the difference in the duration and seriousness of the Mahathir regime's resolve during the first and second rounds of BBL. Malaysia had less to lose than Britain in 1981 in terms of trade and investments. British exports to Malaysia in 1980 totaled £224 million<sup>55</sup> and resulted in a trade deficit was very much in Britain's favor. The Mahathir regime

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<sup>54</sup> Biwater Ltd had strong political connections with the Thatcher government. Indah Water's British partner Northwest Water Ltd provided the financing package for the deal. See Gomez and Jomo, *Malaysia's Political Economy*, pp. 91 and Sally Cheong, *Changes in Ownership of KLSE Companies*, PJ: Corporate Research Services, 1995, pp. 236.

<sup>55</sup> *New Straits Times*, October 15, 1981.



had little to worry about Britain pulling back its £10 billion worth of investments<sup>56</sup> because a great majority of them were long term. If they did pull out of any of the ongoing construction projects, Mahathir was confident Britain's competitors would be more than willing to pick up on them. The British estimated that their companies lost some £20-50 million of new deals during the period of the policy.<sup>57</sup> The above also explains why the British initiated virtually all the efforts to have the policy reversed and why these efforts failed to have any effect on the Mahathir regime for 17 months. If and when the Mahathir regime did decide to initiate political repair and bring about an end to the policy, the motivation was the general slowing down of the Malaysian economy in the prelude to the devastating 1985 financial crisis. The need, by Mahathir regime, for foreign investments and markets to mitigate the effects of the crisis saw Britain move from being a convenient target into the category of a possible FDI source.

In 1994, however, the Malaysian economy had evolved to the point of interdependency with Britain. BBL II was hence going to hurt Malaysia as much as it was Britain. The regime thus tried to narrow the perimeters of the policy.

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<sup>56</sup> *New Straits Times*, May 28, 1981 and *Asiaweek* October 30, 1981.

<sup>57</sup> Estimate by House of Commons Foreign Affairs Select Committee Chairman, Sir Anthony Kerslan, quoted in Mohamad Yusof Ahmad, *Continuity And Change In Malaysia's Foreign Policy, 1981-1986*, pp. 319.

Announcing the government's position, deputy premier Anwar Ibrahim said the policy did not involve the private sector and education (a government domain).<sup>58</sup>

Trade Minister Rafidah Aziz explained that normal trading relationship would not be affected. That it was not allowed to be affected is shown by the fact that during the seven-month period of the policy, British exports to Malaysia almost doubled, rising from 365 million pounds in the first half of 1993 to 667 million one year later.<sup>59</sup> There were fears that the policy would delay the construction of the multi-billion dollar KLIA since British companies were involved in projects totaling one billion pounds. Of course if British companies pulled out, their competitors were still willing to fill in for them, but this time the Mahathir regime was not prepared to face the consequences of a delay that such a move would inevitably bring about for KLIA. The new airport was one of Mahathir's high-stakes mega projects that were intended to showcase the economic and developmental success of his regime. The regime had faced numerous objections from its opponents relating to wastage and environmental detriments that the construction of KLIA had brought about. There was hardly a need for another obstacle in the form of a British pullout. The aftermath of BBL II thus saw efforts to reverse the policy by both sides. They involved complimentary efforts by

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<sup>58</sup> *New Straits Times*, March 3, 1994

<sup>59</sup> *The Financial Times*, September 8, 1994.

foreign ministers Abdullah Badawi and Douglas Hurd; education ministers Sulaiman Daud and John Patten; Trade Minister Abu Hassan Omar and Britain's Board of Trade President Micheal Haseltine; and defense ministers Najib Abdul Razak and Lord Cranborne. The Mahathir regime invited British journalists to visit Malaysia to see the country's reality. Four months into the policy, the cabinet decided to revoke the policy and Mahathir lifted it in the first week of September without official explanation. All in all, BBL II had been in place for 7 months – almost one-third the duration of BBL I. It also had only a fraction of the implementational vigor of BBL I.

In conclusion, BBL was the outcome of the interaction of a number of factors – idiosyncratic, leadership, domestic and external. The punitive policy captured the personal animus of a newly appointed prime minister determined to register his political authority and national standing. It was also in line with his general philosophy, leadership style and nature of policy making. These factors interacted with the domestic needs of limiting non-Malay economic participation and creating new opportunities for increased Malay equity. The domestic economic crises of 1985 played a role in precipitating the reversal of BBL 1 and in an exact opposite manner; the economic boom of the early 1990s encouraged the regime to take the risk of causing consternation in London

through BBL II. There were sufficient number of external factors as well that contributed to the punitive policies, the most important of which is the behavior of the British government prior to the adoption of both rounds of BBL. The role of the British press in the prelude to BBL II, in particular its attack on the regime's integrity, is equally important. External factors played a role in the termination of the policies as well. The arms acquisition and military modernization program of the regime in response to Singapore's armament played its role in bringing about an end in BBL I.

### 5.3 LOOKING EAST

Mahathir proclaimed the "Look East" policy in late 1981 – in the midst of the BBL I. The policy advocated the active facilitation of Japanese FDI into Malaysia, the setting up of Malay-Japanese joint ventures and the emulation of Japanese management styles and work ethics. It also advocated the adoption of the Japanese model of development, the strengthening of trade and economic links with Japan, and the sending of Malaysian students to Japanese universities. It further advocated the promotion of cultural, business and technological exchanges between Malaysia and Japan.

Though the policy used the term Look “East” to include Korea, Taiwan and Hong Kong, and official pronouncements were sometimes sprinkled with mention of these three other countries, the focus was on Japan. Two explanations can be made for the use of the term “East” instead of just “Japan.” Firstly “East,” by representing the obverse of West, depicts the underlying rationale of the foundational shift the Mahathir regime sought – cutting back on Malaysia’s reliance on Western countries and looking for alternative models to emulate. Second, since Look East co-incided with BBL 1, the narrower label “Looking Japan” would have suggested the swapping of Japan with Britain – a connotation that would have sounded rash and would have been hard to sell. “Looking Japan” would have also suggested the desire to emulate the developmental model of one particular nation and this created two predicaments – one historical and the other political. Historically, Japan still evoked strong and negative sentiments in Malaysia given the brutal Japanese occupation during the Second World War. Not mentioning Japan by name in the policy label thus provided a way of suppressing such sentiments. Then there was the practical and political question: If Malaysia needed a model to emulate, why not “Look Singapore” instead? Singapore was nearer to home, had more in common with Malaysia than Japan did, its success was worthy of emulation, and was, by any standard,

the quintessential "Inc." But it was not politically expedient to emulate the city-state. The use of the word "East" helped undercut such difficulties by implying that the policy was not intended to emulate any single nation, but to re-orientate Malaysia towards a highly successful region consisting of different states.

Mahathir laid out the foundations of Look East in February 1982 as an effort to emulate Japanese industrialization, work attitude, ethics and skills, and also to directly seek the co-operation of the Japanese government and companies in various areas of technical training and industrial management.<sup>60</sup>

The first visible results of the policy were Japanese inputs to prestige projects of the Mahathir regime. *Dayabumi*, a distinctively Islamic-designed tower block, the \$100 million Pan Pacific Hotel,<sup>61</sup> and the prestigious \$200 million new UMNO building<sup>62</sup> were amongst the first to take shape with Japanese assistance. There was heavy Japanese input, in terms of expert advice, into the Industrial Master Plan drawn up by the Prime Minister's Department. The plan laid emphasis on heavy industry through the establishment of HICOM. It consisted of four master projects: the Malaysian car at \$1.3 billion, a cement plant

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<sup>60</sup> Mahathir Mohamed, Speech at Joint Annual Conference of MAJECA and JAMECA at Kuala Lumpur on February 15, 1983.

<sup>61</sup> Dayabumi was built by Japanese construction giant Takenaka-Kumagai. The hotel belonged to Tokyo Corporation – one of Japan's largest conglomerates and was to be managed by Tokyo Hotels International. See *New Straits Times*, March 3, 1984.

<sup>62</sup> *Utusan Malaysia* September 26, 1985.

at \$430 million and two steel mills at \$1.2 billion,<sup>63</sup> all of which were expected to trickle down into a variety of spin-offs. All four projects were joint ventures with Japanese companies, in particular *Mitsubishi*, *Nippon Steel* and *Mitsui*. Within the first decade of its implementation, there existed more than 1,000 Japanese businesses in Malaysia<sup>64</sup> complying with Malaysia's equity laws. The regime's privatization policy created further opportunities for Japanese businesses to set up joint ventures with local partners who had been awarded these projects.

Look East also resulted in the injection of Japanese capital into the Malaysian economy. Japan became Malaysia's main source of FDI in the manufacturing sector throughout the 1980s.<sup>65</sup> Japan became the single largest investor of stock in the 1990s,<sup>66</sup> and Japanese FDI became the single largest catalyst for growth and development in the Mahathir regime. Japan was also Malaysia's leading trading partner by the mid 1980s.

Look East further resulted in the adoption of a number of Japanese business practices, in particular the concept of Japan Inc., and *Sogososgha* or in-

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<sup>63</sup> *The Far Eastern Economic Review* June 16, 1983.

<sup>64</sup> Speech by Malaysian Ambassador to Japan Tan Sri Khatib at the 18<sup>th</sup> Annual Conference of JAMECA-MAJECA at Kobe, Japan on November 6, 1995.

<sup>65</sup> Phang Hooi Eng, *Foreign Direct Investment: A Study of Malaysia's Balance of Payments Position*, PJ: Pelanduk Publications, 1998, pp. 2.

<sup>66</sup> See "Japan and Asia: Developing Ties, in *OECD Observer*, August 1, 1999, pp. 71.

house unions. Malaysia Inc was announced just months after Look East by Mahathir in the form a profitable partnership between the Government and the private sector.

The policy cemented ties between Malaysia and Japan. Malaysia's biggest mission abroad is housed in Tokyo and was built during the Mahathir regime. Japanese economic and commercial organizations such as JACTIM, MAJECA and JAMECA became the biggest and most influential lobbies in Malaysia. Influential Japanese individuals such as Kasumaza Suzuki and Kenichi Omahe enjoyed unprecedented access to Mahathir's regime, with the latter being appointed as economic consultant to the regime during the early years of the Look East. Omahe was one of the key advisors to the regime on several projects in the country in the early 1980s as well as the MSC project of the mid-1990s. The Public Services Department launched a scholarship and training scheme that allowed more than 15,000 civil servants and students to study or train in Japanese universities.<sup>67</sup>

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<sup>67</sup> PSD has sent 15,036 Malaysians to study mainly engineering to Japan since Look East's inception. Of these 3343 obtained diplomas and degrees. Correspondence with Siti Zaharah Omar, Look East Policy Unit, Training Division, Public Service Department, Public Services Department JPA, dated January 26, 2005.



Three years into Look East, Mahathir expressed dissatisfaction with Japan over the benefits of the policy. In a memorandum to senior government officials in June 1983, Mahathir said,

“Looking East does not mean begging from the East or shifting the responsibility for developing Malaysia to them. Responsibility towards our country is our own and not that of others. Looking East also does not mean buying all goods from or granting all contracts to companies of the East, unless their offer is best.”<sup>68</sup>

In March 1984, the Deputy Governor of the Central Bank drew national attention to Malaysia's US\$2.7 billion current account deficit with Japan – suggesting economic excesses by the Japanese at the expense of Look East.<sup>69</sup> The existence of non-tariff barriers against Malaysian manufacturers, the slow rate of technology transfers and the practice of transfer pricing by Japanese TNCs to avert taxation began to be raised by Malaysia. The dissatisfaction centered on the notion that Japanese entrepreneurs saw to it that technology transfers were minimal and profit repatriation maximized.<sup>70</sup> In June 1984, the Japanese government made it known that it was denying traffic rights for Malaysian Airlines to operate a flight to the United States with Northwest Orient Airlines

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<sup>68</sup> Saravanamuttu, “Malaysia's Foreign Policy in the Mahathir Period, 1981-1995,” pp. 3.

<sup>69</sup> Speech by Dr Lin See Yan of Central Bank to MAJECA-JAMECA annual conference, quoted in *Ibid.*

<sup>70</sup> See *The Far Eastern Economic Review*, December 15, 1983 for this argument.

via Tokyo. In August 1984, Mahathir said Japan was perpetuating a “colonial” relationship and called for a “Second Opening” of Japan lest the “black ships” of Asean beckoning at its door became impatient.<sup>71</sup> By the end of 1984, it was clear that Look East had suffered a fall from grace. Its rise and fall had followed roughly the pattern of BBBL. Look East peaked when BBL 1 was at its height, and it was jettisoned, at least in part, when the Mahathir regime was buying British at last.

Look East saw a revival in the 1990s. It was now tied to Mahathir’s larger goal of turning Malaysia into a fully developed country by 2020. Vision 2020’s was going to rely on Malaysia Inc., and Japanese financial and technological assistance and the EAEC. Beyond that, having Japan provide regional economic leadership in the form of heading the EAEC was also part of the Look East II. Mahathir told visiting Japanese Prime Minister Tomiichi Murayama that Japan should stop apologizing for its action in WW2 and start being a world leader.<sup>72</sup> When Japan refused, the niceties of Look East required that MFP laid official blame for it at the feet of the United States and at APEC favoring Asean countries such as Singapore.

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<sup>71</sup> Mahathir Mohamad, speech to the inaugural Malaysia-Japan Colloquium, organized jointly by ISIS and the Japanese Foreign Ministry on August 11, 1984.

<sup>72</sup> The International Herald Tribune, August 29, 1994.

The most important pay off for Look East came in the form of US\$2 billion during the height of the 1997 financial crisis. Having spurned IMF and other Western assistance, Malaysia was amongst the largest recipients of the Miyazawa initiative<sup>73</sup> - a gift that ensured the economic and political survival of the regime in the midst of a debilitating crisis.

### 5.3.1 Explaining Look East

As with BBL, Look East is best understood through an examination of the interaction of a variety of factors stemming from Mahathir's idiosyncrasy, domestic circumstances and external events.

Mahathir's non-disposition towards Britain, and by extension the West, was matched by an admiration of Eastern nations that had managed to become successful states. His aversion towards Britain's unwillingness to shed its colonial ways was reciprocal to his approval for non-Western states that had acquired true independence in the form of economic progress. He admired South Korea, which overcame the devastation of a major war to emerge as strong industrialized nation. He was impressed by the developed country status that Taiwan, Hong Kong and Singapore had achieved. "Singapore's success story in

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<sup>73</sup> See "State of Progress of the Miyaza Initiative" [www.mofa.go.jp](http://www.mofa.go.jp)

the economic and social fields cannot but be a model for Malaysians rather than an object of envy.”<sup>74</sup> He was inspired by Japan, which was transformed into a world power by the Meiji Restoration and resurrected into an economic superpower after WW II. He was mindful of Japan’s early role in Malaysia’s development: “Malaysia would not be where it is today without the initial Japanese investment.”<sup>75</sup> He was impressed that Japan’s rise had been dramatic enough to alter the global economic balance. He once remarked to the Japanese Prime Minister:

“I admire the fact that you and your predecessors, through sheer hard work and determination, helped to guide the first Asian nation from an island-based agrarian society to become...the most technologically efficient economy in the world today.”<sup>76</sup>

Chamil Wariya argues that Mahathir was sufficiently influenced by Ezra Vogel’s depiction of Japan’s success story in *Japan Number One* to believe that “if Malaysia wished to succeed, it would be reasonable for it to learn from Japan’s success.”<sup>77</sup> Mahathir believed Japan’s success was due to work ethics and that it

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<sup>74</sup> Mahathir Mohamad, Speech during an official visit to Singapore on December 18, 1981.

<sup>75</sup> Mahathir Mohamad, Speech at the International Conference on Human Resources Development within the Framework of International Partnerships, Jakarta, Indonesia, on September 19, 1994.

<sup>76</sup> Mahathir Mohamed, Speech at the Official Dinner Hosted by the Prime Minister of Japan, Mr. Yasuhiro Nakasone, at Tokyo, on January 24, 1983.

<sup>77</sup> Chamil Wariya, *Mahathir’s Foreign Policy*, pp. 65. Vogel’s work was published two years before Mahathir became prime minister.

was envied, feared and respected by the West. On the other hand, the West had declined due to its social values; moral system and decaying work habits and was thus unable to compete with Japan.

“In many Western countries...large numbers in their thirties or even forties have never worked for a single day in their lives. There are places where an unemployed person is better off not working than if he found a job.”<sup>78</sup>

He did not believe the West was capable of turning around: “when they are challenged, because they are unable to compete, they resort to negative action.”<sup>79</sup> His model was Japan and not the West because, “those who fail cannot be made examples to follow.”<sup>80</sup> To succeed, Malaysia must “look East...(and) rid ourselves of the Western values that we have absorbed.”<sup>81</sup>

Looking East was thus the product of Mahathir’s gut feelings about the East and West in general and Japan in particular. He passionately believed that Japanese success could be emulated through the adoption of “Japanese values” such as diligence, discipline, loyalty, high quality output, good managerial practices and the promotion of group rather than individual interests. Mahathir

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<sup>78</sup> Mahathir’s speech titled “The Asian Values Debate,” delivered at the 29<sup>th</sup> International General Meeting of the Pacific Basic Economic Council in Washington DC on May 21, 1996.

<sup>79</sup> Mahathir Mohamad, National Day Speech, *Watan*, September 3, 1982.

<sup>80</sup> Mahathir Mohamad, at 33<sup>rd</sup> UMNO General Assembly, April 1982.

<sup>81</sup> *Ibid.*

also believed that it was incumbent upon his regime to “influence the selection of systems and values of the people.”<sup>82</sup> He further believed that the Japanese developmental model ought to replace the hitherto followed but failing Western model. “(T)heir (Eastern countries) methods of developing their countries have brought greater success and we do not want to copy those people who have failed.”<sup>83</sup> Following in Japan’s business footsteps, Mahathir encouraged the creation of Malaysia Inc., *sogo shoshas*, and the adoption of in-house unions. Mahathir held the belief that the success of the Japanese economy was due to the close cooperation between the Japanese government and its private sector.

Mahathir articulated the emulation of Japan Inc.

“In the early 1980s Malaysia decided to adopt Japan’s approach...(and) adopted the term ‘Malaysia Incorporated’ to describe a mutually supportive relation between the public and private sectors. The government actually preached collaboration between government and business in order to develop the country. Indeed we regard it a duty for the government to help the private sector, whether local or foreign, to succeed because they augment the revenues of the government, create jobs for a lot of people, and support the other businesses and economic development as a whole.”<sup>84</sup>

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<sup>82</sup> Mahathir Mohamed quoted in David Camaroux, *Looking East and Inwards*, pp. 30.

<sup>83</sup> Mahathir Mohamad, Speech at 37<sup>th</sup> UMNO General Assembly, September 18, 1986 at Kuala Lumpur.

<sup>84</sup> Mahathir Mohamad, Speech titled “Government and Business: Working Together for Economic Development,” delivered at the APEC-CEO Summit, Vancouver, Canada on November 23, 1997.

The creation of in-house unions have allowed for the control of the management over the workers' activities. This move, while allowing unions to exist, severely curtailed their powers by delineating them and preventing them from being members of big powerful umbrella unions. Under Malaysia Inc, unions were expected to place the collective interests of society above their self-interests. For Mahathir, Malaysia Inc demanded political stability and national security that could only exist if strikes and other forms of labor protests were eliminated. He wanted Malaysia to avoid the pitfalls of unions in the West:

"In Britain ...certain group of workers...do not even listen to their own leaders. The result is that society is constantly threatened...and no power exists to ensure that the interests of society as a whole are given priority."<sup>85</sup>

The regime believed that curtailing union-related unrest such as strikes and factory shut downs helped to project an image of political stability. This in turn ensured that Malaysian products remain competitive internationally, and its business climate attractive, both of which acted as a lure for even more foreign investments.

Mahathir also believed that Look East would help bring to fruition his Vision 2020 – the dream to become a fully developed nation within a generation.

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<sup>85</sup> Mahathir, *The Challenge*, pp. 138.

It was to be achieved through the doubling of the nation's GDP every ten years between 1990 and 2020 - arriving at a GDP of \$920 billion in real terms by that year. The method for such growth was not any Western one, but Malaysia Inc *ala* Japan.

"Japan had showed that Asian countries could do just as well if not better than the Western nations. Japan has developed so well that it can now buy the whole of the United States."<sup>86</sup>

Japan was also to be the main player in the core part of Vision 2020 and Malaysia's biggest development plan ever – the multi-billion MSC project.

Look East also embodied the Malay and Malaysian nationalistic sentiments of the Prime Minister. As argued in Chapter 2, Mahathir's 'Malay Dilemma' had internal and external elements. Look East provided a panacea at both fronts. Internally, the Malays would benefit by the inculcation of Japanese work ethics such as diligence and discipline. The external factor - Chinese economic hegemony – would be overcome through the working together of the Look East with domestic policies such as Privatization and Heavy Industrialization. Privatization would help in putting new businesses in Malay hands, and Japanese technology, capital and business acumen would assist in ensuring they survived and thrived in the form of Japanese-Malay enterprises.

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<sup>86</sup> Mahathir Mohamed, quoted in Saravanamuttu, "Malaysia's Foreign Policy in the Mahathir Period," pp. 4.



Jomo has argued that Heavy Industrialization sought to bypass the nascent Sino-Malaysian manufacturing community by resorting to Japanese technology and capital.<sup>87</sup>

As argued in Chapter 2, Mahathir's ideology subsequently evolved to diagnose two additional roots of the 'Malay Challenge,' namely Western influence and Islam. Look East, by focusing less on Western values, provided a panacea for both these ills as well. The Japanese had managed to pick and choose the best from the Western world and had managed to keep their culture and way of life very much intact. Malays could do the same thing – be modernized and progressive while remaining Islamic spiritually and Malay culturally. They could modernize without having to Westernize. The Japanese model vindicated the validity of Mahathir's Islam. An Islam, which allowed Malaysian Muslims to enjoy the fruits of modernity, could actually exist. Camaroux has argued that Mahathir was proposing a *revolution mentale*: the creation of a 'new Malay' based on a model generally associated with the Confucian countries of Northeast Asia.<sup>88</sup> And when the evolution of time and practical concerns forced Mahathir's Malay nationalism to become a subset of the broader Malaysian nationalism, Look East provided the impetus for national development as well. It allowed the

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<sup>87</sup> Jomo, *SEA's Misunderstood Miracle*, pp. 119.

<sup>88</sup> David Camaroux, *Looking East and Inwards*, pp. 30.

regime to aggressively pursue FDI, expertise and technology from a nation with a desire to invest in the region. In other words, Look East fitted well into the “developmental foreign policy” characterization and helped the regime proclaim that Malaysia was on its way to becoming a fully developed and fully independent nation, albeit in its own way. It would be respected and envied by the world in general and be a model to follow by the developing world.

Look East further embodied the leadership and policymaking style of the prime minister. He believed he had the answer to Malaysia’s development needs, that he was right, and that he was on the right side of history.

“At one time China claimed to be the center of the universe. Events gradually moved to the Mediterranean. For several centuries now it has been Europe and latterly it is supposed to be... North America. (Presently)... it can be seen that the Pacific Basin has become more important.”<sup>89</sup>

Khoo Boo Teik<sup>90</sup> has captured Mahathir’s convictions to be right even when the geography was wrong – Japan and Malaysia were not nations of the Pacific Community. Additionally, Mahathir completely ignored realities such as the role of American military domination and massive development assistance that Japan received. He ignored Japan’s own economic domination of the region

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<sup>89</sup> Mahathir Mohamed, Speech at the 3<sup>rd</sup> Asean Law Association General Assembly, delivered in Kuala Lumpur on October 26, 1982.

<sup>90</sup> Khoo Boo Teik, *Paradoxes of Mahathirism*, pp. 68.

as a factor in its developmental miracle. He glossed over the contradiction of wanting to be “truly independent” and copying a foreign developmental model at the same time. He glossed over the possibility that Look East made Malaysia dependent on Japan. The cost of Look East and its domestic components – Privatization and Heavy Industrialization - was of secondary concern.<sup>91</sup> He swept aside the enormous cultural differences between the Japanese and Malaysians. It did not matter that the “transfer of ethics” was more complex than the “transfer of technology.” He ignored the fact that Malays were Muslims and that this fact would affect their process of value inculcation. All Mahathir knew was that he knew the way and that his way was right.<sup>92</sup>

There is no record of a cabinet or party level discussion prior to the announcement of Look East. His deputy Musa Hitam and Finance Minister Razaleigh Hamzah were not in support of it.<sup>93</sup> MFA came to know of the policy after it was made public by Mahathir and its role was relegated to finding ways

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<sup>91</sup> The World Bank regarded the heavy industrialization a costly failure. *The East Asian Miracle: Economic Growth and Public Policy*, 1993, quoted in Jomo, *SEA's Misunderstood Miracle*, pp.119.

<sup>92</sup> Mahathir's confidence in his way is perhaps best shown by his decision to send his son Mukhriz to first learn Japanese at Tokyo, then study Business Studies from Tokyo's Sophia University and later to work for Bank of Tokyo for four years. See Robin Adshead, *Mahathir of Malaysia*, pp. 82.

<sup>93</sup> Aziz Zariza, *Mahathir's Paradigm Shift*, in outlining Musa's reasons for resigning as Mahathir's number two, suggests that he had disagreed with several of Mahathir's policies notably Look East. Pp. 173. Razaleigh made known his opposition to Look East during the 1984 UMNO elections when he challenged Mahathir for the party's presidency. Pp. 195.

to rationalizing and undertaking “damage control” measures in response to negative feedback from target audiences.<sup>94</sup> But none of these procedural lapses affected the policy’s onward march, as captured by Saravanamuttu:

“(T)he Malaysian government, through its formal and informal machinery, mounted a concerted campaign to publicize and propagate the Look East policy. The media lapped it up and the bureaucrats scrambled to discover and uncover all manner of ways to implement the Prime Minister’s edict. The public was bombarded with an unending barrage of propaganda about “the Japanese miracle” and the need to make the country into “Malaysia Inc.”<sup>95</sup>

Lee Poh Ping concurs: “Japan never took center stage in Malaysian public consciousness for any length of time until the Look East Policy was adopted.”<sup>96</sup>

Look East fitted Mahathir’s populist cum authoritarian style, which relied greatly on grand infrastructure to project the notion that the people’s interests were at the heart of the regime. As argued in Chapter 2, the grandiose nature and high visibility of the projects instilled a psychological sense of rapid technological and economic progress and pretended to put Malaysia on par with the developed world. Look East provided both the funds and expertise for such projects to be realized rapidly on a turnkey basis. Those who criticized these projects as wasteful, non-profitable, having negative environmental impact or

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<sup>94</sup> Mohamad Yusof Ahmad, *Continuity And Change In Malaysia’s Foreign Policy, 1981-1986*, pp. 355.

<sup>95</sup> Saravanamuttu, *Malaysian Foreign Policy in the Mahathir Period, 1981-1995*.” Pp. 3.

<sup>96</sup> Lee Poh Ping, “Malaysian Perceptions of Japan Before and During the Look East Period, in *Asia Pacific Community*, No 29, 1985, pp. 100.

questioned the closed manner in which they were planned and implemented were dismissed as those who did not want the country to become fully developed. To feed into populist sentiments, the regime showcased turnkey products – without having to disclose the monetary, social and political costs of these grand projects and policies. Look East allowed the Mahathir regime to bask in the pride of having, amongst others, the world's tallest structures, as being the only Southeast nation with a car production industry, as having Asia's most modern airport and a steel industry comparable to Japan and of desiring a silicon valley (the multi media super corridor) comparable to that of California, USA.

A fuller understanding of the motivations of Look East requires the examination of domestic circumstances. Mahathir took power when the NEP was midway of its two-decade span and there were no signs that the NEP's core objective -increasing Malay share of wealth - was being achieved in any significant way. The pre-Mahathir era method that relied heavily on government bodies buying up equity and holding it in trust for the Malays succeeded in reshuffling ownership from private hands to government hands, but it was not a way of creating new wealth. New investments were required because by 1981 –

the year Mahathir became premier, 50 percent<sup>97</sup> of all investment in the country was government provided. For NEP to succeed, there was a need to create new wealth, to pass on control of equity held in trust to Malay entrepreneurs and to ensure these entrepreneurs remained successful. Viability of Malay businesses was vital to ensure corporate ownership did not slide back into Chinese hands but remained permanently in the hands of the Malay. The Look East provided solutions to both of these concerns. The incentives of Look East provided an impetus for the Japanese government and private sector to invest in Malaysia – helping the process of capital creation. The regime-facilitated Malay-Japanese joint ventures were in turn expected to ensure permanent Malay corporate ownership. The premier's office acknowledged this: "the Look East would help achieve the targets of the NEP outline prospective plan scheduled for achievement in 1990."<sup>98</sup> The *Mitsubishi-Proton* and *Daihatsu-Perodua* Malaysian car joint ventures and the *Mitsui-MCI* cement production stood as three of the most successful illustrations of the tie in of Look East, NEP and the regime. The Japanese provided the massive amounts of capital and sophisticated technology while the regime ensured the viability and profitability of the venture through

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<sup>97</sup> Amarjit Kaur, *The Shaping of Malaysia*, pp. 160, 204, and Peter Searle, *The Riddle of Malaysian Capitalism*, pp. 43.

<sup>98</sup> *The Sunday Star*, July 25, 1982.

subsidies for the national car and high taxes on imported cars. On the other hand, the steel production joint ventures between *Nippon Steel* and *Perwaja* stand out as examples of colossal failure. This venture suffered losses amounting to billions in its two decades of operation.

The changing nature of UMNO members – from school teachers, farmers, small holders and lower division civil servants of the 1960 and 70s to businessmen in the 1980s provided a whole new meaning to the business of creating and distributing wealth. As argued in Chapter 3, Mahathir inherited an UMNO membership that had cultivated the nexus between party activism and government assistance in the form of contracts, licenses, subsidies and business opportunities.<sup>99</sup> The regime thus understood the importance of political patronage within UMNO to its stability and continuity. Additionally, the Mahathir era saw the power of ensuring regime continuity shift from the hands of the electorate at large to that of UMNO members, in particular the select party delegates who were mainly business people reliant on the regime for economic opportunities. The consequence of this was that regime stability, maintenance and continuity formula of the Mahathir era lay largely in the phenomena of

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<sup>99</sup> See the works of Edmund Terrence Gomez, *Politics in Business: UMNO's Corporate Investments*, KL: Forum, 1990, and *Political Business: Corporate Investment of Malaysian Political Parties*, Townsville: Univ of Northern Queensland, 1994, and Joel S Kahn and Francis Loh (eds), *Fragmented Vision: Culture and Politics in Contemporary Malaysia*, Sydney: Allen and Unwin, 1992.

patronage, rent appropriation, and other forms of amalgamation of politics and economics within the parameters of UMNO delegates who were increasingly business people. Look East, when seen together with Privatization provided the regime with an expanded set of tools for use in the business of patronage. The result was that the dynamics of UMNO's internal politics became tied into Look East. It was thus no accident that "corporate" UMNO members who were closely linked with Mahathir and his close associate Daim Zainuddin were the major beneficiaries of Look East projects.<sup>100</sup> Look East thus served the purpose of building the Mahathir regime's power base within UMNO. The fact that Daim was Minister of Finance and UMNO treasurer meant that the dispensing of patronage based projects could be controlled effectively. By the early 1990s, UMNO was doing \$7 billion worth of businesses, its investment arm Renong had become one of the top three companies on the Kuala Lumpur stock exchange and it was Southeast Asia's largest conglomerates.<sup>101</sup> It was also no accident that the two major UMNO crises during the Mahathir era had their origins in dissatisfaction over the distribution of the spoils of Look East and

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<sup>100</sup> Edmund Terrence Gomez, *Politics and Business: UMNO's Corporate Investments*, provides a detailed study that leads to this conclusion.

<sup>101</sup> Peter Searle, *The Riddle of Malaysian Capitalism*, pp. 116 and *Far Eastern Economic Review*, May 17, 1990.



privatization.<sup>102</sup> Despite the intensity of both crises and considerable amount of opposition to the Mahathir regime, no contending faction could match the premier's financial and hence political clout.

There is obviously a need to examine the external factors that led to and sustained Look East. The willingness of the Japanese government and private sector to ally with Malay businessmen at the behest of the Mahathir regime is an important factor. Mahathir appreciated this trait:

“We are happy that Japan is cooperating closely with the industrialization programme for Malaysia...We appreciate the Japanese willingness to accommodate Malaysian policies, particularly with regard to taking minority shares.”<sup>103</sup>

It is argued that the Japanese were able to accord such appreciation based on their experience. Robert Garan has pointed out that Japan's economic practices can be explained in the iron triangle that has dominated Japanese postwar politics: a collusive collaboration between business, politicians and bureaucrats that served each other's interests but not always those of the nation's

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<sup>102</sup> The first two turnkey projects under Look East illustrate this point. Dayabumi was awarded to a Japanese company Takenaka-Kumagai whose local partner was a company linked to Mahathir's sister in law, Saleha Ali. Senior UMNO leader Mohamad Rahmat, whose businessman father in law (a Chinese) had submitted a lower bid in the closed tender exercise for the project turned into a Mahathir critic over this. The UMNO headquarters, built by a Japanese construction company was given to a Daim confidante. Correspondence with UMNO official dated July 5<sup>th</sup> 2004

<sup>103</sup> Mahathir Mohamad, Speech at the 5<sup>th</sup> Joint Annual Conference of MAJECA/JAMECA at Kuala Lumpur on February 8, 1982.

economy.<sup>104</sup> Garan says such collusion allows sordid money politics, scandals, webs of obligation and vested interests, which are all held in place by active government regulation. In short, Japan was able to appreciate Malaysia Inc., because of its own appreciation of Japanese Inc.

Compare this with the Mahathir regime's feeling that the British were slow or reluctant to restructure their operations to meet NEP equity rules,<sup>105</sup> were selling equity of their firms in Malaysia to Chinese and changing LSE take over rules so as to prevent the Malays from acquiring control of British businesses.

The role of the Japanese Lobby in Malaysia – run by Japanese groups and individuals with the support of the Japanese government and industry is another external factor of relevance. Three groups - MAJECA, JAMECA and JACTIM – and two prominent individuals with direct access to the Mahathir regime – Suzuki and Omahe – stand out in this regard. MAJECA and JAMECA were set up as a result of a suggestion - made by Japanese premier Fukuda three years prior to Mahathir taking office – and implemented by the then Special Economic

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<sup>104</sup> One example is the close links between the construction industry and government which has allowed spending on massive public works a traditional way to win votes, keep construction companies happy and keep political donations flowing. The construction of three huge bridges (one of which is the longest in the world) linking Japan's largest island Honshu with the smallest Shikoku in 1998 at a staggering cost of 3.3 trillion yen is case in point. The tolls are so high that the bridges are barely used. Such projects are the result of political deals. Robert Garran, *Tigers Tamed*, pp. 73.

<sup>105</sup> Malaysian diplomat Muhammad Muda provides this argument as a basis for Buy British Last. See "Malaysia's Foreign Policy and the Commonwealth," pp. 459.

Advisor to the Government, Raja Mohar and MISC,<sup>106</sup> while JACTIM was set up a year after the announcement of Look East. The stated objective of MAJECA were to act as a platform for the sorting out of issues relating to bilateral economic relations such as trade, investment, and technology transfer. MAJECA provided assistance to Japanese investors wanting to set up businesses in Malaysia. MAJECA's Japanese counterpart, JAMECA was in turn supported by the Japanese government through the Japanese Chamber of Commerce and had as its members, virtually all major Japanese TNCs. MAJECA and JAMECA enjoyed high level of support from the Mahathir regime, with the Prime Minister himself attending virtually every one of the joint annual meetings, and declaring at one meeting: "MAJECA-JAMECA are the kind of set-ups that fits in the plans and progress of Malaysia, and of course Japan too."<sup>107</sup> Both groups actively promoted pro-Japan initiatives of the Mahathir regime, as tacitly admitted by MAJECA a decade after Look East:

"we have effectively participated in the total national effort in forging close and fruitful economic and trade relationship between Malaysia and Japan. We are grateful to the Malaysian and Japanese governments for their trust in designating our two Associations to be the agencies to bring closer together the private sectors of the two countries as the catalysts to

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<sup>106</sup> See *MAJECA-JAMECA: A Decade of Bilateral Relations*, KL: Pelanduk, 1987. Introduction.

<sup>107</sup> Mahathir Mohamad, Speech at the 5<sup>th</sup> Joint-Annual Conference of MAJEMA, JAMECA, February 8, 1982.

increase bilateral trade and economic cooperation between our two nations.”<sup>108</sup>

The announcement of the Look East Policy at a joint annual conference of the two groups testified to the instrumental role in this regard. Mahathir himself has admitted to the role played by both groups in Look East:

“Through the cooperative efforts of MAJECA and JAMECA, the Malaysian Government has adopted a lot of ideas and inspirations experienced by Japan. Foremost amongst these ideas is the Look East Policy.”<sup>109</sup>

While MAJECA and JAMECA played a role in influencing the Mahathir regime to adopt out an overall pro-Japan orientation leading to Look East, JACTIM seems to have been created with the narrower role of Look East’s fullest implementation. Kasumaza Suzuki, a Japanese national with strong personal ties to Japanese government, businesses, and with Mahathir set it up within a year of Look East. Suzuki owned *Motoko* Resources and had an interest in *Mitsui* – Japan’s second largest giant trading company - he had acted as *Mitsui* Counselor in Malaysia.<sup>110</sup> Suzuki, through his personal ties with the Mahathir regime, made

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<sup>108</sup> Speech by President of MAJECA at the 10<sup>th</sup> MAJECA-JAMECA Joint Annual Conference at Kuala Lumpur on April 10, 1987.

<sup>109</sup> Mahathir Mohamad, Speech at the 7<sup>th</sup> Joint-Annual Conference of MAJEMA, JAMECA, March 4, 1984.

<sup>110</sup> *Far Eastern Economic Review*, March 28, 1991. Also correspondence with MITI official dated August 3, 2004

JACTIM Japan's foremost lobby in Malaysia. *Mitsui* had been able to benefit from Mahathir's Heavy Industries Policy by forming joint ventures with Malaysian Steel and Cement production companies. In recognition of his contribution towards deepening bilateral ties between Malaysia and Japan, he had been given an honorary doctorate from the National University of Malaysia and awarded the high title of "Tan Sri Datuk".

Comparable to Suzuki's role is that of Kenichi Omahe. Omahe had earned the reputation of a business guru and strategist. Owner of a Tokyo based business consultant firm Omahe and Associates, Omahe was a former academic from University of California, Los Angeles whose favorite issue was globalization.<sup>111</sup> He enjoyed a personal relationship with Mahathir from the early 1980s. He had often been called to brief, for a fee, the Malaysian leadership on economic matters, especially relating to Look East, and later on the EAEC.<sup>112</sup> Omahe had inspired the MSC project and Malaysia's experimentation with globalization. He brought Japanese telecommunication giant NTT to invest in the

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<sup>111</sup> Omahe is extensively published. Amongst some of his books include *Beyond National Borders*, NY: Kodansha International, 1987, *The Borderless World*, and *The End of the National State: The Rise of Regional Economies*, London: Harper Collins, 1996

<sup>112</sup> Correspondence with government official dated August 3, 2004

MSC project and enjoyed a business relationship with one of Mahathir's son's in another of MSC's projects <sup>113</sup>

External factors played in role in halting Look East in 1985 when global recession reached Malaysian shores. The economic crisis that followed put the brakes on the foundational pillars of Look East – the NEP, Privatization and Heavy Industries – and caused a slow down in the pace of Look East. The stresses of economic hardship also brought out into the open the regime's discontent with Japanese excesses with regard to Look East. The severity of the crisis brought about a need to “look everywhere” for assistance and funds.

Yet the setback was temporary. The regime launched Vision 2020 and the multi-billion dollar MSC project in the aftermath of the economic recovery and Look East was alive and kicking once again. But Japan had become ever more important given the regime's desire for it to head the EAEC. The EAEC was integral to Malaysia's desire to double its rate of growth every ten years till 2020. As argued in the previous chapter, Vision 2020s required that Malaysian products tap into the buying power and market potential of the region. The EAEC was aimed at allowing Malaysia to do just that. But there existed active

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<sup>113</sup> *Ibid.*

opposition to EAEC from the United States and other Asean states who favored APEC instead. Japan's leadership was thus vital if the EAEC was to come alive.

In contrast to the 1985 recession, the 1997 regional crisis did not act as a setback for Look East. Mahathir had blamed globalization and the West for the crisis, spurned the IMF's offer of assistance, and isolated the country as a result of currency controls. The Japanese government acted as a lifeline for his regime, which appeared on the brink of collapse under pressure from a massive revolt within UMNO led by his deputy Anwar Ibrahim. As argued in Chapter 3, the crisis had a devastating effect on the huge UMNO related business conglomerates. Preventing these businesses from winding up was vital to the continued stability of Mahathir's regime. The massive bail-outs required to save these conglomerates required an injection of funds and Japan, through its US\$2 billion advance through the US\$37 billion *Miyazawa* initiative,<sup>114</sup> helped precisely in this regard. It is argued that the driving force behind the Miyazawa initiative in general was the instinctive desire to prevent Japan's troubled offshore investments from busting – either directly due to cash-flow problems, or indirectly due to the social and political fallouts in countries suffering from the crisis. Malaysia got the biggest share of the initiative and Look East had much to

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<sup>114</sup> See Fred Bergsten, "The New Asian Challenge" *Working Paper* 2004, Washington: Institute for International Economics. Pp. 14.

do with this. Almost two decades of its implementation had created good bilateral ties, led to vast Japanese investments and joint ventures – all of which were affected by the crisis and needed injection of funds. Above all, the volume of investments over decades of close ties created the realization in Japan that the fate of the Mahathir regime would probably determine the fate of their investments and ventures. The Japanese were essentially helping themselves – Malaysia and the Mahathir regime got helped in the process. It would be unfair to not credit Look East for such a symbiosis.

In conclusion, Look East was the result of the interaction of a number of factors belonging to the idiosyncratic, leadership, domestic and external categories. The policy captured the personal pro-Japanese and anti-Western sentiments of Mahathir. The premier identified with Japanese work ethics, its successful economy and its model of development. Look East was also in line with Mahathir's general philosophy, nationalistic tendencies, leadership style and non-consultative nature of policy making. Look East fed into the regime's populist nature by facilitating the construction of grandiose turnkey infrastructure projects. These factors interacted with the domestic needs of creating new opportunities for increased Malay equity. Privatized industries and newly created ones under the Heavy Industries Policy that were handed over to



Malay entrepreneurs needed Japanese capital and expertise to succeed, and Look East provided these ingredients. Regime stability and maintenance, which relied on the phenomena of patronage, rent appropriation, and other forms of amalgamation of politics and economics within the parameters of UMNO, was further tied into Look East. Linking the country's economic interests with that of Japanese Big Business helped create more avenues of patronage for the Mahathir regime. External factors further interacted with much of the above. Regional investment was part and parcel of Japanese industry and Look East was thus actively supported and lobbied for by Japan's private sector and government. More than that, the intertwined and collaborative nature of Japanese politics and economics allowed them an appreciation of the kind of objectives the Mahathir regime had in mind with regards Look East. The global recession of the mid 1980s precipitated the slow down of Look East, but only temporarily. The post-recovery period saw the launch of Vision 2020, the multi-billion dollar MSC project and the EAEC – all of which gave Look East a new and stronger lease of life. The 1997 regional financial crisis saw the Look East bear fruit for the Mahathir regime. Two decades of collaboration had resulted in the Japanese having enough stakes in wanting to instinctively protect their massive

investments in Malaysia and seeing Mahathir's regime survive the political turmoil, which accompanied the economic tsunami.

#### **5.4 THIRD WORLD SPOKESMANSHIP.**

Both of Mahathir's first major foreign policy initiatives – Buy British Last and Look East – had in them the seeds of a broader shift, namely solidarity with Third World states. Both policies embodied within themselves, stated principles and rhetoric that gave indications that these policies were milestones on a much longer journey aimed at identifying more closely with the developing world. Justifications for BBL were predicated on anti-colonialism, need for equitability, standing up to a former colonial master and genuine independence, while those for Look East were hinged on the supremacy of Eastern ways and the need to move away from the Western developmental model. All these issues were at the heart of just about any Third World problem. Yet embedded within BBL and Look East was the desire to be truly independent and attain a developed world status. Taken together, the principles of BBL and Look East indicate a seemingly paradoxical state of affairs – a desire to exit the developing world status while being in solidarity with it, and a desire to join the developed Western world while being its foremost critic. But for the Mahathir regime there was no

paradox. Third World Spokesmanship, if conducted craft fully, would allow the regime the best of both worlds - solidarity with the South and good ties with the North.

The Mahathir regime's solidarity with the Third World is seen through four major foreign policy initiatives – The Antarctica Policy, its stand on Apartheid, the Global Environment, as well its push for a New World Order. These initiatives were backed by the regime's active membership and leadership roles in Third World oriented organizations such as NAM, OIC, the South-South Commission and various bodies of the United Nations. The regime set up a new organization - the G-15 - whose stated objective was to extend South-South cooperation. Taken in totality, these initiatives provided the regime an opportunity for Third World spokespersonship, even though the substance of MFP in terms of actual actions (voting trends, trade relationships, investments etc) remained in solidarity with the developed world. It is argued that MFP in this regard was dual track – openly championing Third World issues and discreetly maintaining substantive relations with the developed world.

Mahathir announced the Antarctica policy in his maiden speech to the 37<sup>th</sup> United Nations General Assembly (UNGA) a year after taking office, in 1982. The core tenets of the policy were to (i) have all existing claims to the continent

renounced, (ii) have the UN declare that the Antarctic was mankind's universal property, (iii) ensure its resources were shared globally, and (iv) that all activities in the continent were solely for peaceful purposes. Arguing that the territory ought not to be a subject of exclusive discussion amongst a few advanced nations and calling for Antarctica to be declared a "common heritage of mankind,"

Mahathir told UN members:

"The continent of Antarctica...belongs to the International Community. The countries presently claiming them must give them up so that either the UN administers these lands or the present occupants act as trustees for the rest of the world."<sup>115</sup>

It was clear that the Malaysian proposal was aimed at upsetting the 1959 and 1961 Antarctic Treaties. Mahathir called for a review of both treaties in the spirit of the just concluded Conference of the Law of the Sea. He said the treaties represented "an agreement between a select group of countries (and) it did not reflect the true feeling of the members of the UN."<sup>116</sup>

In March 1983, Malaysia took its position to the NAM Summit in New Delhi at which Mahathir urged the body to support a move to replace Antarctica's deficient system with "an internationally accepted regime managed

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<sup>115</sup> Mahathir Mohamad, Speech to 37<sup>th</sup> UNGA, New York, September 29, 1982.

<sup>116</sup> *Ibid.*

in the interest of mankind."<sup>117</sup> NAM adopted a watered down version, dropped the language "common heritage of mankind" and agreed, for the "benefit of mankind," to undertake a comprehensive study with a view to widening international cooperation in the area.<sup>118</sup> NAM's support allowed Malaysia to table Resolution 38/77 at the 38<sup>th</sup> UNGA. The Resolution, adopted in September 1983 called for the UN Secretary General to "prepare a study on all aspects of the Antarctica."<sup>119</sup> The UN study was presented at the 40<sup>th</sup> UNGA in 1985 and Resolution 40/50 called for measures to implement its recommendations. At the 41<sup>st</sup> UNGA Malaysia presented another Resolution calling for member states of the 1959 and 1961 ATCP treaties to suspend their activities in relation to the continent. The Resolution passed, but was ignored by all ATCP members. Mahathir raised the issue for the final time at the 1986 UNGA.

South Africa's discriminatory political processes provided the Mahathir regime an added opportunity to take the Western world to task. MFP's objective with regard to its stand on Apartheid was to make Kuala Lumpur its foremost critic. Having boycotted all previous CHOGMs, Mahathir declared he was attending the 1985 Meeting to launch a spirited attack on Apartheid.

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<sup>117</sup> Mahathir Mohamad, Speech at the 8<sup>th</sup> Conference of Heads of State of Non Aligned Countries, 1986.

<sup>118</sup> *New Straits Times*, September 23, 1983 and *Business Times*, September 14, 1983.

<sup>119</sup> *The Star*, December 12, 1983.

Malaysia's policy on Apartheid called for direct economic and political sanctions against South Africa. Mahathir called upon the USA, Britain, West Germany and Japan to support his call.

"We call upon these four countries and others, in the name of humanity, to join forces with us to end white rule and install a majority government. The Non Aligned Movement on its part will intensify its efforts on all fronts to dismantle apartheid as soon as possible."<sup>120</sup>

Mahathir called on NAM to formulate a collectively financed action plan to prepare South Africa for freedom from the white minority rule.

"Let us help them by training professional administrators and industrial experts in various fields. And let us prove our willingness to realize the African people's aspiration to be free from the white colonialism in South Africa."<sup>121</sup>

MFP lobbied to get the TWF to hold its 1985 Third World awards presentation ceremony in Malaysia.<sup>122</sup> The award was given to Nelson Mandela - the then imprisoned freedom fighter of South Africa. Atlatf Gauhar, TWF's secretary general acknowledged Malaysia's role in fighting Apartheid, giving the regime the recognition it sought. Mahathir hosted Mandela after he was released from prison and again after he assumed leadership of South Africa. Malaysia

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<sup>120</sup> Mahathir, Speech at the 8<sup>th</sup> Conference of Heads of State of Non Aligned Countries, Harare, 1986.

<sup>121</sup> *Ibid.*

<sup>122</sup> Aziz Zariza, *Mahathir's Paradigm Shift*, pp. 137.

was also a member of the Commonwealth Committee on South Africa, which was set up to help in the process of dismantling Apartheid and lifting sanctions on South Africa. Mahathir lifted a 30-year travel ban to South Africa and established diplomatic ties in 1992, which were quickly followed by official visits by heads of states of both countries.

On the issue of the Global Environment, MFP in the Mahathir era sought to stop the developed countries from blaming the South for the earth's dismal state. MFP's position was that the South's ability to protect the environment was hindered by the North's failure to foster sustainable development. The policy unequivocally linked consideration of the environment to development and sought to frame the issue of environment within the framework of the North-South divide. MFP took the position that carbon monoxide emissions from the industrialized world were core to environmental degradation while deforestation of the South was a survival issue for poor nations. In 1989, Malaysia initiated the Langkawi Declaration at CHOGM, which clearly linked development to the environment. "The need to protect the environment should be viewed in a balanced perspective and due emphasis be accorded to promoting economic growth and sustainable development."<sup>123</sup> Months later, Malaysia co-

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<sup>123</sup> Speech by Mahathir at CHOGM in Kuala Lumpur, 1989.

drafted with Brazil the UN resolution which put the UN Commission for Environment and Development on track for the 1989 Earth Summit at Rio de Janeiro. MFP's uncompromising stand won recognition at the Summit where Malaysia's position helped define the demands of the South:

"Poverty, inequality and terms of trade, external debt, the flow of resources out from the South – today these issues have become a crucial part of the equation when the environment is talked about."<sup>124</sup>

Beyond the policy initiatives discussed above, the Mahathir regime advocated a New World Order in which the Third World had a collective voice powerful enough to dictate world events relating to the economy, the environment and global peace.

"The developed world is self centered, it does not include the developing world in decisions with affect everyone. They did so on economic issues such as revaluing their currencies. They did so on issues relating to world peace."<sup>125</sup>

Mahathir said the superpowers protected themselves from a nuclear holocaust and never went to war with each other, but were responsible for a number of proxy wars throughout the developing world. He criticized the UNSC as being non-representative of current world realities and called for reform in the form of

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<sup>124</sup> Speech by Summit Chairman Maurice Strong. *Far Eastern Economic Review*, August 20, 1992.

<sup>125</sup> Mahathir Mohamed quoted in Aziz Zariza, *Mahathir's Paradigm Shift*, pp. 146.



expanding the Council and limiting the use of veto power from the Permanent Members.<sup>126</sup>

For any of these initiatives to materialize, a collective and outspoken Third World voice was required and MFP sought to harness it through its leadership in existing Third World bodies such as NAM, and OIC and through the creation of new institutions of the South where necessary. Such leadership was accorded recognition when Mahathir was elected President for the International Conference for Drug Abuse and Illicit Trafficking in 1985, Chairman of the G-77 in 1989 and Asia's representative for the non-permanent UNSC seat in 1988.

MFP spearheaded the setting up of the South-South Cooperation Commission in 1986. Headquartered in Kuala Lumpur, which also provided its first Secretary-General, the Commission, also known as the G-15, was chaired by Julius Nyerere of Tanzania. Mahathir, who chaired the Steering Committee of the Second S-S Dialogue in Kuala Lumpur in 1985 promised that the Commission, which was set up in cooperation with the South Foundation based in London, would not be a mere "talk shop."<sup>127</sup> The Kuala Lumpur Declaration asserted that the Commission would evaluate the economic situation of Third World

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<sup>126</sup> Singh, Karminder., "Reforming the United Nations Security Council," Master's thesis, Unpublished, Boston University, 1995.

<sup>127</sup> Aziz Zariza, *Mahathir's Paradigm Shift*, pp. 146.

countries, identify the choices of action and propose concrete measures for the future of South-South cooperation and North-South economic relations. Its members were twenty prominent Third World leaders, providing service on a personal basis.

Among the Malaysian-initiated projects of the Commission were a bilateral payment arrangement, BPA, run by Malaysia's Central Bank to facilitate commerce amongst developing nations and a data bank –SITTDEC- financed by Kuala Lumpur to enable the Third World to present a united front at forums such as the UN and other international bodies. How SITTDEC worked was illustrated by a special summit union of NAM countries prior to the 1992 UN Earth Summit at Rio de Janeiro. SITDEC data was used to prepare for a common stand linking environmental issues to development.

The success at Rio ensured that similar pre-summit meetings were held prior to the World Conference on Human Rights held in Vienna in 1993. Two preparatory meetings were held in Bangkok, one in which governments took part, while the other was for NGOs. Malaysia argued that a common front resting on the notion of Asian values was the correct approach to counter Washington's tactics on human rights issues. The Asean states, along with some other countries were persuaded to form such a front, which presented the Vienna

delegates with the "Asian position" argument – namely that Asian values were different from Western ones – the former emphasizing community values and the latter individual rights.

The Mahathir regime took MFP's vision for a New World Order directly to the doorsteps of a number of developing countries. Mahathir visited a number of developing countries, delivering the message of the South and offering Malaysia's success as an example. He traveled extensively to Africa, including small ones such as Western Samoa and Tonga and exhorted them to show solidarity with the South and stick together to face globalization. He offered the Malaysian model of good economic development and good ethnic relations to Fiji, Namibia, Vietnam and the Baltic States.<sup>128</sup> Malaysia also launched the equivalent of a peace corps in 1997, which would travel to Laos, Cambodia and African countries.<sup>129</sup> In the aftermath of the 1997 financial crisis he took his warnings against the policies of the World Bank, the IMF and currency traders from developed countries to NAM, OIC and the G-15. To his New World Order, Mahathir now added the need for global regulations against currency traders and speculators.

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<sup>128</sup> *New Straits Times* November 19, 1992, May 3,5,7, 1997.

<sup>129</sup> *Straits Times*, May 17, 1997.

### 5.4.1 Explaining Third World Spokesmanship

Given the country's dependence on the developing world for trade and investments, the push for Third World Spokesmanship appeared risky and unnecessary. The endeavor was unrealistic given three more factors. Firstly, Malaysia possessed extremely limited resources to bring to fruit many of the MFP initiatives related to the Third World. Secondly, any expected returns from this initiative were low and third, the regime itself desired to be a member of the rich nations club that it so readily criticized. That some of the regime's policies outlined in this section were irrational, wasteful and futile was a view shared by many within the MFA.<sup>130</sup> Other bureaucrats thought them to be "self-defeating."<sup>131</sup> In the case of the Antarctica Policy, Malaysia was not geographically contiguous to the continent; it had no capability of any scientific exploration and no technological expertise to contribute to any sort of research in the area. One could argue that Antarctica was completely irrelevant to a small and distant country such as Malaysia – a reality exposed by the fact that there was no desk or division within MFA or other bureaucracy that catered for the Antarctic region. A similar argument could be made of its stand on Apartheid.

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<sup>130</sup> Mohamad Yusof Ahmad, *Continuity And Change In Malaysia's Foreign Policy, 1981-1986*, pp. 366 quotes a MFA official who declared the Antarctica Policy for instance a "lost cause".

<sup>131</sup> *The Far Eastern Economic Review* August 20, 1992 attributes such categorization to Mahathir's "own officials."

Malaysia had its own share of problems relating to its pro-Malay affirmative action policies and zealously criticizing the faraway regime of South Africa had the potential of attracting the spotlight of attention to itself. South Africa's Prime Minister Verwoed did exactly this when he made explicit references to the Malaysia's special rights for the Malays.<sup>132</sup> In the case of its Global Environment and New World Order Policies, there is little doubt that Malaysia had none of the resources, influence, experience, credibility or clout – globally or even regionally - to bring about any meaningful change. On the other hand, the regime's continuous and vocal stand on these issues had the potential of causing suspicions and misperceptions of Malaysia's intentions and objectives. It has been argued for instance that such suspicions hindered the success of Malaysia's EAEC proposal.<sup>133</sup> Khoo argues that Mahathir's diplomacy "seemed destined to lose friends if not designed to gain enemies,"<sup>134</sup> while Milne and Mauzy in their analysis titled "Mahathir as champion of the South" simply wonder about the real motives of Third World Spokesmanship:

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<sup>132</sup> See Mohammad Muda, *Malaysia-South Africa Relations and the Commonwealth, 1960-95, The Round Table*, 340, 1996, pp. 427.

<sup>133</sup> Micheal Vatikiotis, "The Mahathir Paradox," in *The Far Eastern Economic Review*, August 20, 1992 argues that "Mahathir's role in enhancing (Malaysia's) international profile have not sat well with all the country's regional neighbors. Some see Mahathir as aspiring to regional leadership...encroaching on the assumed prerogatives of Indonesia's President Suharto, who is Asean's longest serving leader." Vatikiotis argues that Singapore was similarly skeptical.

<sup>134</sup> Khoo Boo Teik, *Paradoxes of Mahathirism*, pp. 79.

“It is not easy to see why Mahathir took up the cause of ‘the South’. Perhaps he simply wanted to exercise his political talents in a wider field.”<sup>135</sup>

It is argued that an analysis of the interplay of idiosyncratic, domestic and systemic factors does help provide an explanation.

Spokesmanship of the Third World allowed for an assertiveness, robustness, and directness that suited Mahathir’s confrontational style - one that never hesitated in offering brusque views and controversial policies. Mahathir’s rhetoric seemed to be at its best when he championed the causes of the poor nations against the ‘bullying powers’ of the North. It may be ironical, but yet the reality is that Mahathir’s central role in the NAM and other Southern institutions was precisely because of his westernization – command of English, mastery of a conflictual political style and sophisticated use of high profile diplomacy. Khoo opines on Mahathir’s diplomacy:

“His performances on international forums were articulate and courageous, intelligent and polished. He had a quick wit and a sharp tongue. He had a ready opinion on anything and held a strong position on everything. He was seldom slow to castigate the powerful or to shame the hypocritical.”<sup>136</sup>

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<sup>135</sup> RS Milne and DK Mauzy, *Malaysian Politics Under Mahathir*, pp. 133.

<sup>136</sup> Khoo, *Paradoxes of Mahathirism*, pp. 79.

In this sense, it was indeed an exercise of his special talents on the international stage.

Beyond those talents, however, the rhetoric reflects Mahathir's perception of world events and his own conception for Malaysia's proper role on the international stage. It reflects his desire in wanting to put Malaysia and his regime on the map of a world dominated by former colonial powers and their materialistic culture. His high profile championing of controversial causes, his public scolding of the West on everything from economics to morality, his wide traveling abroad to publicize these issues and his devotion of time and energy do have their roots in strong inner beliefs relating to Western values, Asian values, his beliefs in what is right and wrong with the international system and what is best for Malaysia and his regime. Or as one analysis puts it, it stems from Mahathir's "mix of superiority and inferiority complexes."<sup>137</sup> Khoo says it was a case of "the old Malay nationalist turned Third World spokesman when it came to expressing outrage at historical oppression and contemporary marginalization."<sup>138</sup>

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<sup>137</sup> *The Far Eastern Economic Review*, August 20, 1992.

<sup>138</sup> Khoo Boo Teik, *Paradoxes of Mahathirism*, pp. 79.

The Antarctica Policy was an argument against the status quo of the post-1945 international system. In the ATCP, Mahathir saw the continuation of the colonial mentality amongst its members who acted in concert with each other. It was Mahathir's way of demanding reform in the system and for a more democratic way of sharing the spoils of Antarctica. By accusing the ATCP members of "scheming to appropriate for themselves Antarctica's political wealth"<sup>139</sup> the regime was raising an alarm against the "exclusive club" mentality of the rich nations.

To Mahathir, the Apartheid Policy too was a form of colonialism in the sense it denied self-rule to its majority population. Its continuance was a sign of double standards of the Western world – pressing for human rights and democracy in the Third World, but allowing institutionalized racial discrimination to persist in South Africa. Britain's refusal in particular to be part of trade sanctions on Pretoria, was for Mahathir, a sign that the West was hypocritical. Allying with Mandela and the ANC – considered by many in the Third World to symbolize oppression – provided a boost of credibility to Mahathir's aspiration for spokespersonship of the Third World.

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<sup>139</sup> *The Star* December 2, 1983.



MFP's New World Order was the Mahathir version of the failed NIEO – a lofty ideal articulated in a variety of ways by Third World spokesmen of the earlier eras – Sukarno of Indonesia, Nyerere of Tanzania and Gandhi of India. The NIEO failed because it was too ambitious, pushed too hard and perhaps because it intended to go beyond rhetoric. Mahathir dismissed the NIEO as a “non-starter,” arguing that while it was equitable, “the developed countries turned it down flat.”<sup>140</sup> His alternative New World Order was much smaller, more manageable and less complex. The required action – such as cooperation amongst the developing countries – was confined to the Southern countries, and thus could be done without the direct involvement of the North. Mahathir was not willing to push as far as proponents of the NIEO had done because he did not want to jeopardize Malaysia's interests.

Taken together, all these contentious policies succeeded in putting Malaysia and Mahathir on the map. To the Third World, it helped portray Malaysian diplomacy as mature, courageous and sophisticated. Mahathir succeeded in being hailed as the “Hero of the South” and “Champion of the Poor,” accolades which allowed him to steal much of the thunder of virtually

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<sup>140</sup> Mahathir Mohamad, Speech at the South-South II Summit of Third World Scholars and Statesmen, at Kuala Lumpur on May 5, 1986.

every post Cold War NAM conference – the premier platform for the developing world.

MFP's high profile role in NAM was aimed at taking over its leadership, or at least steering it in the desired direction. With globalization on the march and the Cold War over, NAM had lost its rationale for existence. But Mahathir's penchant for a global leadership role and MFP's need for a platform combined into a strategy aimed at providing the movement with a new basis for existence. Mahathir achieved this by introducing new agendas concerning the international economic order, the environment and human rights into NAM. In his opening speech at the 1995 NAM Summit, he listed three priority items for the organization: outlawing nuclear weapons, enhancing economic performance and restructuring the UN to make it more democratic. MFP's attempts to link NAM with G-15, Asean and the OIC – mainly by raising issues traditionally raised in those forums at NAM – such as tabling Resolutions relating to Bosnian Muslims or by talking of Asian values in NAM were also aimed at keeping NAM alive, relevant and worthy of membership.

Mahathir became, as the *Far Eastern Economic Review* in a cover story puts it, the "new voice for the Third World."<sup>141</sup> Pictured sardonically in the famous

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<sup>141</sup> *The Far Eastern Economic Review*, August 20, 1992.

pose of North Korean dictator Kim Ill Sung on its front cover, the *Review* nevertheless labeled its story "The Mahathir Paradox." The paradox lay in the seemingly contrasting state of affairs of Mahathir being the spokesman of the Third World, and being a firm believer in free markets and free investment at the same time. Camroux sees no paradox, arguing that having "made it as a tiger economy" (by believing in free markets and free investments) made the right of spokespersonship for its emerging brothers fully and completely legitimate.<sup>142</sup>

This study sees no paradox either – the argument being that Mahathir pursued both tracks simultaneously, taking care not to allow one to jeopardize the other. In any event, the status of a Third World Spokesman was not an end in itself. It was meant to serve domestic and regime interests as well.

It is argued that there were domestic and external considerations in MFP initiatives with regard to the use of South-South Dialogue, the G-15 and pre-summit meetings. At the preparatory meeting of G-15 prior to the Rio Earth Conference - called to enable the developing world to take a common stand - Mahathir launched a stinging attack on the environmental demands of Western countries particularly those concerning tropical forests. Mahathir was painfully aware that Western campaigns and the softwoods lobby against the logging of

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<sup>142</sup> David Camroux, *Looking East and Inwards*, pp. 23.

tropical rain forests had begun to gain worldwide prominence and had to be stopped. He argued that such campaigns were a deliberate attempt to put the brakes on the economic development of emerging nations. Mahathir said Western environmentalists “intended to instigate the peoples thinking on preserving tropical forests,” while their true intention was to “trap developing countries into poverty.”<sup>143</sup> Eighty percent of Malaysian land was forest and Malaysia was an exporter of tropical products. A collective stand by NAM - made possible by the fact that many Southern countries were in the same boat as Malaysia - was necessary to block international Western pressure against logging which accounted for 40 percent of Malaysia’s GDP. There was an added element of regime stability in this de-forestation issue. Logging permits – extremely lucrative given the quality of Malaysian timber and their high demand in markets such as the USA, Japan and Europe – were government controlled and given to regime and party loyalists as part of the political patronage formula of the regime. Any threat to de-forestation thus translated into a threat for regime stability.

Blunting the West’s campaign for human rights and democracy had domestic considerations as well. Firstly, there was a need to obscure the regime’s

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<sup>143</sup> Mahathir Mohamed, Speech at the 39<sup>th</sup> UNGA, New York, October 10, 1984.

lackluster record on both fronts and to contain domestic aspirations and demands for more individual rights and democratic reforms. Secondly, the West's campaign had the potential of affecting Malaysia's economic well-being. The regime felt that the West's calls for human rights, democracy and issues such as minimum wage were directly linked to the notion of economic competitiveness. "Their proselytizing for democracy veiled only slightly the objective of eliminating competition before it begins."<sup>144</sup> Mahathir further believed Western governments, NGOs and the Press worked together to impair the competitive ability of countries such as Malaysia and prevent them from joining the developed nations club. He believed the West did not wish the East become advanced and strong enough to pose a threat to it. He argued "Economic forces, the Western media and NGOs carried on where the colonial governments left off,"<sup>145</sup> and

"Maybe there is no conspiracy by the West to undermine all the East Asian Economies. But conspiracy is not necessary. It is sufficient for everyone to see the danger threatening them for them to act in concert ...to disguise their intentions by talking about democracy, human rights, etc...The proposal for worldwide minimum wage is a blatant example.

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<sup>144</sup> Mahathir Mohamad, Speech at the 1994 China Summit Meeting at Beijing China on May 11, 1994.

<sup>145</sup> Mahathir Mohamad, Speech to Just International Conference on Rethinking Human Rights, delivered on December 6 1994 at Kuala Lumpur.

They know very well this is the sole comparative advantage of the developing countries."<sup>146</sup>

The regime's method of fighting the West's human rights and democracy campaign was two fold – virulently expose the problems faced by Western societies and shrewdly link Western demands for both to Third World development. Mahathir's attacks on Western democracy and Western values ranged from those widely off the mark to stinging criticism. "Liberal democracy may be good for the religious deviationists or cultists,"<sup>147</sup> he declared, and human rights were "blithely enunciated by (those) who ignored totally and were unembarrassed by the horrors they brought to Hiroshima and Nagasaki."<sup>148</sup> He asked UNGA, if "democracy means to carry guns and flaunt homosexuality."<sup>149</sup> He questioned the right of the West to preach human rights.

"Certainly from the records and performance of the Western liberals, they are least capable of defining and preaching human rights. Indeed, at the moment, they have no right at all to talk of human rights, much less judge others on this issue."<sup>150</sup>

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<sup>146</sup> *New Straits Times*, May 12, 1994.

<sup>147</sup> Mahathir Mohamad, Speech at the International Conference on the Future of Asia, delivered on May 19, 1995 at Tokyo, Japan.

<sup>148</sup> Mahathir Mohamad, Speech to Just International Conference on Rethinking Human Rights, 1994.

<sup>149</sup> Mahathir Mohamad, Speech to the 47<sup>TH</sup> UNGA, 1992 at New York.

<sup>150</sup> Mahathir Mohamad, Speech to Just International Conference on Rethinking Human Rights., 1994.

Given its record, Mahathir said the West also had no right to preach any of its other societal values as well.

“In many Western societies, there are massive problems of drug addiction...teachers are afraid of their pupils. There is chronic vandalism. There are some societies where there are more illegitimate babies than legitimate ones. There are countries where large numbers in their thirties or even forties have never worked for a single day in their lives...There are democracies where political leaders are afraid to do what they know is right...the people and their leaders live in fear...of the free media. Indeed they are oppressed by their own media, the way people in feudal societies were oppressed by their rulers...”<sup>151</sup>

Instead of fighting the West alone, Mahathir saw great benefits of rallying the developed world to turn his battle into a collective cause. Third World organizations provided a platform both for the uninhibited airing of such rhetoric and for obtaining a consensus for some sort of collective action. Malaysia's Third World Spokesman status brought such consensus within reach. Mahathir concertedly pointed out the folly of Western efforts to link human rights to trade or aid. Using the term “conditionalities” Mahathir made the case that the developing world stood to lose economically if the West was not checked.

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<sup>151</sup> Mahathir Mohamad, Speech titled “Asian versus Western Values” delivered at the Senate House, Cambridge University, UK, on March 15, 1995.

Malaysia's test for collective action came in two pre-summit meetings held in relation to the 1993 World Conference on Human Rights in Vienna. RS Milne and DK Mauzy argue that Malaysia was one of the two most outspoken countries at the two preparatory conferences that were organized.<sup>152</sup> The Asean states, along with other countries, were persuaded to form a common front on issues to respond to the forceful tactics of Washington. The front provided arguments to show that Asian values were different from the West's. This argument was based on the notion that rights must reflect values and Asian values differed from Western ones. Asians paid more attention to collective rights – economic and social rights – as opposed to Westerners who emphasized individual rights. Additionally Asians believed rights ought to be defined limits so as to protect the larger goals of society. Also Asians did not believe that democracy was the same as human rights and that there were different types of democracies. The USA was thus wrong in forcing its own version of democracy to Asian countries given that the circumstances in Asia were different. Mahathir

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<sup>152</sup> The other was Singapore. The authors argue that Indonesia would have been the third most vocal had it not been for the fact that world attention was then focused on its atrocities in East Timor. See RS Milne and DK Mauzy, *Malaysian Politics Under Mahathir*, pp. 137.



summed up this view aptly: "Is there only one form of democracy or only one high priest to interpret it?"<sup>153</sup> Milne and Mauzy argue that

"Mahathir's exposure of Western illogicalities was devastating. He was correct to think that while Asean might accept the rulings of some international body on its human rights practices, it was too much for the West/North to make assessments that would be accorded the same credence."<sup>154</sup>

Being a spokesman for the developing world helped the Mahathir regime underline its success and silence domestic and foreign critics of some of its core domestic policies. The Apartheid Policy for instance, provided a conceptual link to the regime's efforts to uplift the status of the Malays at home through its wide range of affirmative actions. Bringing about justice for the disadvantaged was the common core of both Malaysia's anti-Apartheid stance and the NEP. The former provided legitimacy to the latter. Third world spokespersonship was also an indication of the developing world's acceptance of the regime's developmental formulae.

"Today, Malaysia is modestly proud to be regarded as a model for economic development...the achievement is impressive as we have...done so despite being a nation of diverse and incompatible ethnic and religious mix."<sup>155</sup>

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<sup>153</sup> Mahathir Mohamad, Speech at 46<sup>th</sup> UNGA, at New York on September 24, 1991.

<sup>154</sup> RS Milne and DK Mauzy, *Malaysian Politics Under Mahathir*, pp. 139.

<sup>155</sup> Mahathir Mohamad, Speech titled "Regional Business Collaboration" delivered at the Opening of the Pacific Rim Business Collaboration Symposium at Kuala Lumpur on December 5, 1994.

If the NEP and other domestic policies were morally wrong, how were it then that others in the Third World such as Fiji and Vietnam wanted to emulate them?

“After the undeniable results that have been achieved over the 20 years of our NEP, some have quietly acknowledged that we are one of the very few examples of societal restructuring which others should follow. Many countries are now advised to look at Malaysia’s example of marrying dynamic and sustained economic growth with massive wealth redistribution...”<sup>156</sup>

It was no wonder then, that Mahathir gave the impression that “the NEP ought to be applied globally,”<sup>157</sup> something that the premier alluded to as a matter of pride:

“if aspects of the NEP are seen in Malaysia’s suggestion in overcoming the problem of an unbalanced world economy, we will make no disclaimer. Indeed the foundations of the NEP are a good manifestation of social responsibility and we are prepared to present it in international relations.”<sup>158</sup>

The effect of such “global recognition” of the NEP and the regime’s acquiring of Third World spokesman status on silencing domestic critics is captured aptly by Khoo,

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<sup>156</sup> Mahathir Mohamad, Speech at the 1994 China Summit Meeting at Beijing China on May 11, 1994.

<sup>157</sup> *The Far Eastern Economic Review*, April 9, 1982.

<sup>158</sup> Mahathir Mohamad, Speech at 33<sup>rd</sup> UMNO General Assembly, September 10, 1982 and *New Straits Times*, September 11, 1982.

“the world, not being Malaysia, was not open to restructuring by its ‘definitive people.’ But Mahathir’s small diplomatic triumphs encouraged some Malaysians to feel and act as if ‘we’ve come a long way, baby!’”

More importantly, an enhanced status within Third World countries provided opportunities for investment. Malaysian companies won a major privatized power project in Zimbabwe and Western companies that lost out complained that politics was the determining factor. Mahathir, rejecting these complaints as attempts to preserve Western dominance said, “developing countries must reject this challenge to their sovereign right to be free to trade and invest wherever they wish.”<sup>159</sup> Zimbabwe’s president, Robert Mugabe simply told his Western critics to “go to hell.” “I told them that because the plant is ours we do what we want with it.”<sup>160</sup> Mahathir, in the spirit of Third World Spokesmanship, matched Mugabe’s rhetoric, “How can they ask you what you are doing? I would like to ask them what they are doing in their countries one day.”<sup>161</sup>

Mahathir’s stature of standing up to the West won the regime much goodwill – which translated into commercial benefits – in anti-Western states such as Somalia, Liberia and Iran. In 1996, for instance, Petronas took up a

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<sup>159</sup> *The Far Eastern Economic Review*, December 12, 1996.

<sup>160</sup> Mugabe made the comments on his visit to Malaysia in 1992. *Ibid.*

<sup>161</sup> Mahathir’s response in Harare on November 4, 1996, *Ibid.*

lucrative 30 percent Iranian oil project – despite a US law that penalized foreign companies that did business with the Islamic republic. Mahathir announced that the US law was of no consequence to Petronas, “We will not submit to what the U.S. dictates to us.”<sup>162</sup>

Similarly, MFP, riding on its status as “champion of the poor” obtained unprecedented investment opportunities ranging from lumber and construction to oil and gold exploration in impoverished corners of Europe, Africa, the Americas and wide swaths of Asia. (Discussed in Chapter 6).

Malaysia’s vociferous support of Nelson Mandela and his ANC earned the nation economic benefits. A Malaysian firm profited from running Mandela’s political campaign for president. In 1994 Mandela announced the earmarking of US\$690 million for his government’s reconstruction and development plan. Malaysian companies vied successfully for a large chunk of this money. YTL won a multi million-dollar housing project, MRC obtained a bid to develop the Samrand Township, and UMNO related company Renong won a billion Ringgit deal to develop the Durban international harbor zone.<sup>163</sup> Malaysian companies won all three deals despite substantially lower bids from other international

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<sup>162</sup> Mahathir Mohamad, quoted in *Ibid.*

<sup>163</sup> *Ibid.*, and *New Straits Times*, May 24 and 29, 1995.

developers.<sup>164</sup> *Telekom*, *Petronas* and *SMG* were the other Malaysian companies that won substantial businesses in South Africa, making Malaysia rank second only to the USA and well above South Africa's traditional FDI sources such as Germany and UK.<sup>165</sup>

South Africa further became Malaysia's newest defense partner in the efforts by the Mahathir regime to modernize its armed forces in relation to the arms build up by Singapore. Forced into self-reliance after years of UN arms embargo on South Africa, the country had developed a sophisticated indigenous defense industry. Defense Ministers from both sides conducted official visits, which culminated in joint ventures between the military establishments and defense industries of both countries as well as significant arms purchases by Malaysia.<sup>166</sup>

In conclusion, it is argued that it made political and economic sense to harness the collective voice of Third World nations and have Southern institutions go along in the defense of Mahathir's idiosyncratic needs, Malaysia's national priorities and the regime's interests. Third World spokespersonship and the vociferous rhetoric that came out as a result was a calculated MFP initiative

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<sup>164</sup> K.S. Jomo (ed.) *Ugly Malaysians? South-South Investment Abused*, 2002.

<sup>165</sup> *Ibid.*

<sup>166</sup> *New Straits Times* January 13 and November 8, 1995.

of the Mahathir regime. But it was always carefully and shrewdly balanced by pragmatic MFP actions of maintaining trade, military and diplomatic ties with the Western world. MFP's frontal assaults on the West, in particular Britain and the USA were always balanced by studious efforts to maintain relations on an even keel. Such actions were often conducted discreetly, but often enough openly, such as its consistent support for all UN resolutions against Saddam Hussein's Iraq and its support of the USA's global war on terror. Such pragmatism is expected given that 25 percent of all Malaysian manufacturing exports end up in the US market (against 8 percent to Japan, for instance).<sup>167</sup> Also, USA was Malaysia's biggest trading partner with strategic involvement in Malaysian oil, gas and electronic industry. Mahathir was perfectly aware of such realities as he alluded to one in 1994 "Many of today's realities already boggle the mind...for example the United States exports more to my small country, Malaysia, than it exports to all of Eastern Europe and Russia."<sup>168</sup> To Europe, Mahathir said: "You who are from Western Europe must sell us more, it is good for you. It is also good for us..."<sup>169</sup>

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<sup>167</sup> *The Far Eastern Economic Review*, August 20, 1992.

<sup>168</sup> Mahathir Mohamad, Speech at the Europe and East Asia World Economic Summit, on October 13, 1994 at Singapore.

<sup>169</sup> *Ibid.*

This aspect of MFP in particular is, in essence, a classic case of policy rhetoric versus actions. Mahathir condemned colonialism but tacitly endorsed Indonesia's occupation of East Timor.<sup>170</sup> He called for the world to sanction the pariah regime of South Africa, but became an apologist of Sitiveni Rabuka's racist regime<sup>171</sup> perhaps due to Fiji's adoption of Malaysia's affirmative policies. But the lines between rhetoric and action were never always clearly demarcated. Not all of Third World Spokesmanship was rhetoric as the economic advantages derived from winning investment opportunities in many developing countries proves. And not all the actions of keeping a working relationship with the West were discreet or devoid of rhetoric either as shown by Malaysia's voting, trade and investment records. One is tempted to say that Third World Spokesmanship was the most successful aspect of MFP in the Mahathir regime. This dual track foreign policy safeguarded relations with Malaysia's major trade partners, yet allowed Mahathir at the same time to be the champion of the South.

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<sup>170</sup> Malaysia's statement on the question of East Timor delivered by Mustaffa Mohamad to the UNGA on November 11, 1992.

<sup>171</sup> At the 1985 CHOGM, Mahathir said, "the only positive episode of the Commonwealth is when it expelled and made a pariah of South Africa." At the 1987 meeting, however, he pleaded for an end to Fiji's expulsion from the Commonwealth. See *New Straits Times*, October 14, 1987.

## **CHAPTER 6: THE OUTPUTS OF MALAYSIAN FOREIGN POLICY 1981-2003: REGIONAL ENGAGEMENT, ISLAMIC POSTURING AND COMMERCIAL DIPLOMACY**

### **6.1 INTRODUCTION**

This chapter is a continuation of the preceding one and attempts to outline and explain additional outputs of MFP during the Mahathir era. The method of examination of policy outputs and the primary proposition of this chapter follow that of Chapter 5.

### **6.2 REGIONAL ENGAGEMENT.**

MFP had traditionally viewed regionalism, in particular Asean, as a platform for regional security issues. When Mahathir came to power, the Cambodian conflict stood as the most intractable of the regional security issues. MFP supported the Asean-UN International Conference on Cambodia and endorsed the resultant Declaration on Cambodia that echoed Asean demands for a negotiated comprehensive political settlement. MFP was particularly instrumental in setting up the Coalition Government of Cambodia, which held the country's UN seat from 1982 onwards. This government was formalized in Kuala Lumpur, with Prince Sihanouk as President, Khieu Samphan as Vice



President and Son Sann as Prime Minister. Two years later, MFP pushed for “proximity talks” between Asean and the Cambodian parties. MFP supported Thailand’s and Indonesia’s initiatives that resulted in the first face to face meeting, in July 1988, of all the internal parties of the Cambodian conflict, all the Indochinese states and Asean members. MFP further sanctioned all follow up meetings between the various parties to the conflict in particular between Sihanouk, Son Sann and Hun Sen in Paris in November 1988; between Thailand and Vietnam in January 1989; and between Vietnam and China also in January 1989.

In this regard, MFP also took an active role in the shape and composition of Asean’s post-Cold War regional security apparatus, the ARF, which was officially inaugurated in the 1994 Summit. The 22-nation<sup>1</sup> forum provided Malaysia with a voice in the security agenda of the region. It was in line with MFP’s desire for the involvement of the regional powers to guarantee the peace. Given that the USA was a member of ARF, MFP’s involvement was further in line with Malaysia’s coming to terms, albeit reluctantly, with the uni-polar

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<sup>1</sup> The ARF’s membership stands at 22. This includes the original members: Australia, Brunei, Canada, China, European Union, Japan, Laos, Malaysia, New Zealand, PNG, Philippines, Republic of Korea, Russia, Singapore, Thailand, USA and Vietnam. Cambodia, India, Burma and Mongolia were subsequently admitted. The ARF proposed the provision of regional security and stability in the region through a three-stage evolution process. The first stage is the promotion of CBMs, the second is the development of preventive diplomacy mechanisms and the final stage is the development of Conflict Resolution Mechanisms.

dominance of the USA in the aftermath of the demise of the Soviet Union. ARF thus became the cornerstone of the nation's regional security concerns in the post-Cold War era.

In the 1990s, however, the Mahathir regime began to see regionalism in economic terms. In 1991, MFP embarked on a mission to win support for the a regional economic group, the EAEG, whose overarching objective was to create a free trade area within the Asean and East Asian region. Malaysia realized that Asean did not encompass, in market terms, a large enough area; hence it simultaneously became MFP's objective to win support for the inclusion of all Southeast Asian states into the grouping. By the early 1990s, Malaysia was openly calling for the inclusion of Vietnam, Laos, Cambodia and Myanmar in order to make Asean the enlarged 10-nation group that it envisaged.

Both initiatives of MFP, however, met with considerable resistance – both from within Asean and beyond. Amongst Asean members the opposition to EAEG came primarily from Indonesia and Singapore – proponents of an alternative free trade plan, AFTA, and later strong supporters of the Australian plan, APEC. Outside of Asean, the opposition came from the USA, Japan and South Korea on the EAEG issue and the USA and Europe on the issue of including the military dictatorship of Myanmar into Asean.

MFP took a number of courses to deal with such opposition. On the Asean expansion issue, Malaysia hammered home the cardinal Asean principle of non-intervention in domestic affairs. It argued that engaging Myanmar was better than isolating it. As for the EAEG and APEC issue, MFP sought to win Japanese support while sharply criticizing the USA to the extent of boycotting the 1993 APEC Summit in Seattle.

While the Asean-10 objective did come to life, the EAEG proposal soon came to naught, with Asean instead adopting in 1992, the CEPT scheme based AFTA.<sup>2</sup> Malaysia immediately offered some 4,000 items to be traded under AFTA, which took effect on January 1993<sup>3</sup> and mandated import duties to range from zero to five percent with maturation in 2003.

As for APEC, MFP, despite its misgivings, attempted to come to terms with its existence. Mahathir attended subsequent meetings and Malaysia even hosted the 1998 summit, by which time a free trade area for APEC by the year 2020 was already under consideration. MFP now concentrated on the framework and pace of APEC instead of pushing for an alternative.

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<sup>2</sup> The same summit stated: "With regard to EAEC, Asean recognizes that consultations on issues of common concern among East Asian economies and the promotion of an open and free global trading system." Mahathir said that "the EAEC proposal is now entirely in the hand of Asean." See *The Straits Times*, May 14, 1993.

<sup>3</sup> *Asiaweek*, February 7, 1992.

The 1997 Asian financial crisis once again brought regionalism into the forefront of MFP. Given the severe depreciation of the regional currencies, Malaysia sought to rely on barter trading between Asean members to weather out the crisis.<sup>4</sup>

The crisis further precipitated an attempt by MFP for Asean to take a collective stand against those believed by Malaysia to be responsible for the turmoil – currency traders and herd mentality investors – and even against the IMF. Mahathir sought to convince the Asean states to support his calls for regulations for foreign exchange trading. But serious disagreements on the causes and prescriptions of the crisis amongst Asean states forced Mahathir's attempts to the backburner.

### **6.2.1 Explaining Regional Engagement**

As indicated above, since its formation in 1967, Asean had been MFP's vehicle for regional security issues. The Mahathir regime saw no reason to bring about change in this tradition. The regime thus wholeheartedly supported Asean's initiatives in the Cambodian peace process. Additionally, the regime sensed the emergence of two new security threats – both of which required

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<sup>4</sup> Mahathir, *The Malaysian Currency Crisis*, pp.28.

collective efforts to resolve – Singapore’s massive armament and forward defense posture as well as China’s military might. The city-state’s strong ties with the USA complicated the threat from Singapore. The threat from China was urgent given the territorial dispute over the Spratlys. Both threats made MFP’s support for the ARF process imperative. It is argued that Singapore’s ties with the USA, more than anything else, set MFP on the path of support for the ARF despite Malaysia’s initial apprehensions about direct super power involvement in the region’s security.

As for China, MFP sought to use the ARF to both engage and contain the regional power. MPF wanted the ARF process to persuade China to play by normative rules and create some measure of transparency in China’s military plans and aims. MFP further desired that the ARF be deployed to get a commitment from Beijing that force will not be used to settle the Spratlys issue. MFP also saw the ARF as providing an avenue for the containment of China’s ambitions. The ARF’s membership, which included China’s rivals – India, Russia, and the United States and its allies Japan and South Korea, provided MFP with a comforting sense that China’s ambitions in the region would be balanced if not contained.

The latter part of the Mahathir regime, however, stands out as beginning to view regionalism in terms of economics and markets. It is argued that a mix of idiosyncratic, domestic and external factors precipitated MFP's changing perception of regionalism.

The recovery efforts in the aftermath of the 1986 economic crisis and the regime's goals of the early 1990s of doubling the nation's GDP every ten years till 2020 necessitated the need to think about Asean and East Asia in economic-opportunity terms. The region's remarkable growth and potential led the regime to consider Asean and East Asia as an expanded market for Malaysian products, a source of technology sharing, labor flows and trans-border investments. Motivated by economic and market considerations, MFP thus initiated, first the push for Asean expansion to include the Indochinese states and Myanmar, and then the EAEG initiative for East Asia in general. According to Mahathir's calculations:

"the combined total of the Asean population is 411 million. The Asean share of global trade is in excess of \$498 billion, comparing very favorably with the respective shares of China, Japan and Korea. The GDP of Asean member countries exceed US\$448 billion, again reflecting every credible figure compared to the other major Asian nations."<sup>5</sup>

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<sup>5</sup> Mahathir's Speech titled: "Asean: Shaping a Regional Order," delivered at the 5<sup>th</sup> Meeting of the Asean Heads of Government at Thailand on December 14, 1995.

MFP thus eyed the new markets of the region – Vietnam, Laos, Cambodia, and Myanmar. The end of the Cold War meant that these previously closed markets were moving from socialism to capitalism and Malaysia sought a niche in these markets. The Mahathir regime understood that all three countries desired Asean membership for a variety of reasons ranging from international recognition to indirect access to EU and other Western markets. Pushing for their inclusion into Asean was expected to translate into favorable treatment for Malaysia in its quest for market and investment penetration into these new members. The strategy worked and MFP was able to open doors for Malaysian entrepreneurs to conduct business in these bureaucratic red tape bogged markets. Petronas, for instance was able to secure large-scale contracts in these new markets: petroleum exploration, production, terminalling and distribution of LPG in Vietnam and retailing of petroleum products in Cambodia.<sup>6</sup>

But there was no reason for MFP to stop at just Asean expansion in its quest for new market penetration. The whole of East Asia had remarkable potential in this regards, as Mahathir argued:

“Today, all the economies of East Asia are regarded in hyperbolic terms...Obviously an economic revolution of some sort has taken place...In 1992, the East Asian regional economy overtook the Western European

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<sup>6</sup> *The Financial Times*, London, October 7, 2002.

regional economy and the North American regional economy in purchasing power parity terms...The EU and World Bank now say that by the year 2000...there will be 400 million East Asians with the per capita income of North America and Western Europe. The IMF says that between now and the year 2000 the total world GDP will rise by US\$ 7.5 trillion. More than half of that increase will be produced in East Asia."<sup>7</sup>

What such potential meant for Malaysia in terms of its products, services and investment was captured by Mahathir:

"Most of the region is now a marketplace, filled with the ringing sound not of bugles and bullets, but of bazaar bargaining and stock market babble, of pile-driving steam hammers, of roads and harbors and magnificent edifices, of progress and growth."<sup>8</sup>

But the developing markets of Asean and East Asia had in place a variety of protectionist barriers that had to be removed. A cooperation-inducing regime had to be put in place for MFP's regional economic designs to work. The EAEG was destined to do just that and more as Mahathir argued:

"I believe in an East Asian system of cooperative prosperity...We must compete against each other. But we must also cooperate with each other. And we must establish processes of cooperative prosperity with each other, especially as our competition mounts...That is why I proposed the EAEG...Although regional trade is crucially important...there is much more that can be done with regard to optimizing joint development zones, trans-border investments, technology sharing, tourism, even labor flows.

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<sup>7</sup> Mahathir Mohamad, Speech at the Pacific Dialogue, Penang, Malaysia on November 13, 1994.

<sup>8</sup> Mahathir Mohamad, Speech at The First East Asian Young Leaders Congress on East Asian Peace, Stability and Prosperity, delivered at Kuala Lumpur on August 5, 1994.



The areas for cooperation – from privatization to infrastructure development – are too many to enumerate.”<sup>9</sup>

The EAEG proposal met with head on resistance from the USA and its regional allies. The source of the resistance, its nature and the fact that the proposal was Mahathir’s brainchild ensured that the premier’s combative style and not compromise dominated MFP’s ensuing debate.

Mahathir had one major reservation against APEC – domination by the USA. “Whatever may have been the record of the past, in the future, a true Pacific Community cannot be built on the basis of hegemony.”<sup>10</sup> He feared that APEC would become exclusive, would be institutionalized and used by the super power as an instrument of economic advantage. “We would be foolish if we of the Pacific get together in order to circle our wagons, to raise the barricades and to keep everyone else out.”<sup>11</sup> Mahathir saw APEC as being part of the bigger agenda of regional domination by the US.

“In the name of open regionalism, others outside the region are attempting to dictate the pace and direction of Asia-Pacific Affairs – be it in the Asean Regional Forum (ARF) or in the APEC process, or even in the meeting which Asians are planning to hold with the Europeans. Asean must not permit this...in economic relations and on issues of international

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<sup>9</sup> *Ibid.*

<sup>10</sup> Mahathir Mohamad, Speech titled “The Pacific Era” delivered at the 27<sup>th</sup> International General Meeting of the Pacific Basin Economic Council at Kuala Lumpur on May 23, 1994.

<sup>11</sup> *Ibid.*

trade, Asean should not allow others from outside the region to set the pace for cooperation in the context of APEC.<sup>12</sup>”

He further saw APEC as part of the process of globalization and indiscriminate trade liberalization that only benefited the USA. Malaysia supported liberalization, yet much of its heavy industries were infant enough to require government protections. Under such circumstances, Mahathir preferred consensus, but feared Malaysia’s say would be drowned in the US dominated APEC.

“We all know how infuriatingly difficult it is to get a consensus...But what is the alternative to building a community through consensus? To bulldoze? To bludgeon? To bully?”<sup>13</sup>

Mahathir preferred having Japan or China lead the EAEG instead of US leadership of APEC. “I am committed to the building of an East Asian community in which ...the giants of our region – China, Japan, Indonesia - shall have their rightful place.”<sup>14</sup> Mahathir believed that Malaysia’s good relations

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<sup>12</sup> Mahathir Mohamad, Speech titled “Asean: Shaping a Regional Order,” delivered at the 5<sup>th</sup> Meeting of the Asean Heads of Government at Thailand on December 14, 1995.

<sup>13</sup> Mahathir Mohamad, Speech titled “The Pacific Era” delivered at the 27<sup>th</sup> International General Meeting of the Pacific Basin Economic Council at Kuala Lumpur on May 23, 1994.

<sup>14</sup> Mahathir Mohamad, Speech titled “Pacific Community – Peace and Stability” delivered at the Tenth General Meeting of the Pacific Economic Cooperation Council, at Kuala Lumpur on March 22, 1994.

with Japan – brought about by the Look East Policy – would ensure that Japanese leadership of any regional order protected Malaysian interests.

The USA continued to push for APEC, insisting that any regional grouping in the Asia Pacific area should have it as a member. Fearing Japanese domination of EAEG, the super-power pressured Japan's leadership to stay out of the grouping.<sup>15</sup> By 1995, Japan caved in with its Foreign Minister Yohei Komo announcing that if the EAEG hampered the formation of APEC, Japan would not be party to it.<sup>16</sup> At the August 1995 ARF meeting in Brunei, Japan joined South Korea in demanding to know why Australia, a member of the ARF was not in the Malaysian plan for the EAEG. It was a rhetorical question given the fact that Australia was the author of the EAEG's nemesis – APEC.<sup>17</sup>

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<sup>15</sup> Bush's secretary of state James Baker wrote a memorandum to the Japanese instructing them not to be part of the idea. See Saravanamuttu, "Asean in MFP Discourse," pp. 45. Philip Kotler and Hermawan Kartajaya, *Repositioning Asia*, pp. 121 similarly argue that Japan became unwilling to participate due to US pressure.

<sup>16</sup> *New Straits Times*, August 4, 1995.

<sup>17</sup> Malaysia-Australia relations had reached low ebb since the announcement of APEC in 1990. In March 1991, Malaysia suspended "all non-essential cooperative projects with Australia and in July launched a "buy Australia last" campaign (in response to Australia's offensive caricature of Malaysian society in a TV drama series, *Embassy*). Australian prime minister Keating's reply to journalists wanting his response on Mahathir's decision to boycott APEC displayed the acrimonious relations: "I couldn't care less, frankly, whether he comes or not next year. APEC is bigger than all of us – Australia, the United States, Malaysia, Mahathir and any other recalcitrants." The diplomatic row that resulted over Keating's use of the "infamous R word," hardly made it possible for Australia to be invited to be party to the EAEG. See Richard Robinson (ed.), *Pathways to Asia: The Politics of Engagement, Australia*: Allen and Unwin, 1996, pp. 60-61.

Mahathir took on the USA for insisting it be part of any regional grouping in the Asia-Pacific region, especially since it was not part of the initial Australian proposal:

“If being on the shores of a vast ocean qualifies one to be a member of a regional organization, then the US should also be a member of the EC, which is made up of countries of the Atlantic rim<sup>18</sup>.”

Mahathir argued that East Asians were being bullied to accept APEC.

“In East Asia we are told that we may not call ourselves East Asians as Europeans call themselves Europeans and Americans call themselves Americans. We are told that we must call ourselves pacific people and align with people who are partly Pacific, but more American, Atlantic and European. We may not have an identity that is not permitted, no may we work together on the basis of that identity.”<sup>19</sup>

Mahathir declared as baseless, American fears that Japan would dominate EAEG, arguing that China, Korea and Asean would not allow it. Mahathir even tried to win a *quid pro quo* from the Americans on Malaysian support for US-sponsored 1991 Gulf War resolutions,<sup>20</sup> but the Bush Administration reneged on the deal. After having boycotted APEC meetings, MFP began to come to terms both with APEC and the US role in it. This allowed the EAEG to die a natural death.

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<sup>18</sup> *New Straits Times*, October 15, 1992.

<sup>19</sup> Quoted in Saravanamuttu, “Asean in MFP Discourse.” Pp. 45.

<sup>20</sup> *The Star*, November 8, 1991.

The reality of Malaysia's economic, market and developmental needs and the potential of the region for these needs meant that MFP had to work within the framework of APEC. Having a free trade area dominated by the USA and its allies was better than not having any arrangement at all. Sitting out of APEC was more detrimental to Malaysia's interest than being a party. Membership at least allowed MFP an opportunity to object to detrimental initiatives.

MFP thus began concentrating on the framework and pace of APEC, pushing for open regionalism within the grouping, as indicated by Mahathir at a subsequent APEC summit:

"Let me begin by saying a few words about APEC so that we have a clear understanding of what it is and what it is not...APEC is (i) a voluntary process which depends on unilateral contributions of members; (ii) it operates on the basis of consensus and with minimum institutional infrastructure; (iii) it believes that liberalization works most effectively when supported and facilitated by economic and technological cooperation, (iv) it is that product of a unique style, where consultation and moral suasion count for more than legal contracts and litigation' (v) it is founded on open and complementary interaction within itself...; and (vi) it is an association of countries with greater disparities in sizes and stages of development."<sup>21</sup>

What mattered most for MFP were that the region itself, and not the developed countries that sat in APEC set the core terms for action. The pace of APEC was thus crucial:

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<sup>21</sup> Mahathir, Speech titled "Creating an Apec Community," delivered at the Manila Dialogue at Manila, on November 23, 1996.

“The Seattle, Bogor and Osaka Declarations of 1993, 1994 and 1995 have all been crafted with the single purpose of liberalization and facilitation in mind...I have no problems with trade liberalization per se...My concern, however, is with the manner and pace at which the market liberalization measures are being pursued in the APEC process.”<sup>22</sup>

As argued in Chapter 4, regionalism provided Malaysia refuge from globalization. Malaysia believed Asean had the capacity to hold at bay, on its behalf, some of the forces of globalization. Mahathir argued, “we do have the necessary clout as a group and if we remain strongly united, we should be a credible force which others would need to reckon with.”<sup>23</sup> The EAEG proposal came about at a time when the Uruguay Round – viewed by MFP as protecting the interests of the developing countries - faced a prospect of a breakdown. MFP saw the breakdown itself as being the result of the onslaught of globalization.

MFP was also concerned about another globalization related phenomenon – the growth of powerful regional groupings amongst the rich nations that tended to shut out developing states such as Malaysia. MFP thus desired to consolidate Asean as a counterweight to powerful regional groupings namely NAFTA and EC.

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<sup>22</sup> *Ibid.*

<sup>23</sup> Mahathir Mohamad, Speech titled “Asean: Shaping a Regional Order,” delivered at the 5<sup>th</sup> Meeting of the Asean Heads of Government at Thailand on December 14, 1995.

But it was the 1997 Asian financial crisis that truly brought Asean into the forefront of MFP in terms of dealing with globalization. Malaysia sought to rely on barter trading between Asean members to overcome problems associated with free-falling currencies. Mahathir explained his logic for the barter trade move:

“All the Asean countries were in financial trouble and did not have enough foreign exchange to finance imports. The mechanism of bilateral payments arrangement was to be utilized, in which the gross two-way trade flows were netted off every three months and the net balance settled in the exporter’s currency. The payment was to be made between the two respective central banks. The exporter would be paid in local currency by his central bank immediately on export and the importer will pay his central bank also in his local currency.”<sup>24</sup>

It was Mahathir’s way of seeking shelter, in regionalism; from the forces of globalization that he believed had caused the crisis. He personally took this plan to the heads of states of Thailand, Philippines and Indonesia.

“The proposal was accepted...Unfortunately, the bureaucratic process too long and the proposed bilateral payments arrangement was not implemented.”<sup>25</sup>

Mahathir further sought a collective stand against those he believed responsible for the turmoil – currency traders and herd mentality investors – and those whom he believed sought to benefit from the aftermath of the crisis – the

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<sup>24</sup> Mahathir, *The Malaysian Currency Crisis*, pp. 28.

<sup>25</sup> *Ibid.*

IMF in particular. Mahathir sought to convince the Asean states of his logic by which he attacked rogue speculators, called for bans or severe curtailment of foreign exchange trading, and argued against IMF assistance. There is little to indicate that MFP was expecting concrete action from Asean on these issues given the fact that there was no consensus over the causes and prescriptions of the crisis. The motivation seems to stem from Mahathir's personal beliefs and convictions as well as from the domestic struggle regarding the crisis with Anwar's group. As indicated in Chapter 3, Anwar as Finance Minister and the Central Bank under his control believed the causes of the crisis were domestic and hence favored IMF prescriptions. Getting Asean to go along with Mahathir would have given his views legitimacy and hence an upper hand in his battle with Anwar.

But far from convincing regional leaders, Malaysia ended up being isolated, as the premier himself noted:

"At one stage, other East Asian leaders... claim(ed) the Malaysian leader, with his loud mouth, was bringing down...the value of all East Asian currencies. Leaders of the tiger economies of East Asia therefore disassociated themselves from the views of the Malaysian leader. Malaysia was fast becoming a pariah nation to be avoided by everyone.<sup>26</sup>".

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<sup>26</sup> Mahathir, *The Malaysian Currency Crisis*, pp. 19.



In summary, therefore, it can be seen that a mix of idiosyncratic, domestic and external factors motivated MFP's objectives and actions with regard to regionalism.

The recovery efforts of the 1986 crisis, the need for markets for Malaysia's industrialization plans, the need for new destinations for reverse investments and expanding businesses opportunities for regime loyalists stand out as the main domestic factors that motivated MFP's shift of regional focus from security to economy. The new markets of Indochina and Myanmar were seen as being able to fulfill such needs, hence MFP's push for Asean-10. Another domestic factor was the high stakes political crisis in the aftermath of the 1997 crisis. This gave Mahathir the motivation to seek regional endorsement of his prescriptive policies vi-a-viz those of rival Anwar. Additionally, Mahathir felt regional initiatives could help alleviate Malaysia's severe foreign currency shortage in the immediate aftermath of the crisis. Hence MFP's attempt to formulate the bilateral payment arrangement within Asean.

Mahathir's idiosyncratic preference for Japan to provide economic leadership to the region and his suspicions regarding USA, Australia and European domination framed the APEC vs. EAEG tussle. This factor was also responsible for Malaysia's guarded enthusiasm for the ARF until it was forced to

come to terms with it. Mahathir was wary of US intentions in the region given that there was no rival superpower left to keep it in check. Mahathir's penchant for practicality ensured that the ARF and APEC were eventually embraced. In the years preceding APEC, Malaysia's economy had so embraced globalization and MFP had so deeply acquired a commercial tint that sitting out of APEC was simply not an option.

The main external factors that guided MFP towards enhanced regionalism were the demise of socialism in Indochina, the growing prosperity of the region, the rising tide of trade blocks, the defense postures of Singapore and China and the end of the Cold War.

The end of socialism in Indochina meant that the Indochinese states and Myanmar themselves desired to join Asean. It was on this desire that MFP's Asean-10 policy was predicated – creating a sort of tit-for-tat situation for MFP. The expectation was that since these states themselves desired Asean membership for international legitimacy and economic ties with the developed world (via Asean's relations with the European Union for instance) they would repay Malaysia by according it investment and business preferences.

MFP sought to capitalize on the growing prosperity of the region via its EAEG proposal. Malaysia further sought to mobilize Asean as a counterweight

to the other two powerful regional groupings namely NAFTA and EC, which were seen as shutting out the developing countries such as Malaysia. To a lesser extent globalization also acted as an external catalyst for Malaysia to lean more towards regionalism.

Singapore's forward defense postures and China's refusal to rule out the use of military force over regional disputes acted as powerful external factors in pushing MFP firmly into the arms of the ARF.

Finally, the end of the Cold War and the resultant realities of a unipolar international power structure allowed MFP to come to terms with the dominance of the USA in regional economic and political affairs to the extent that it eventually came around to embracing the region's most important economic and security organizations – APEC and the ARF.

### **6.3 ISLAMIC POSTURING.**

One of the prominent features of MFP in the Mahathir era was its forceful articulation of issues that concerned the Islamic World. Five issues that were concentrated on, namely the liberation of Palestine, the Soviet invasion of Afghanistan, Iraq (the two Gulf Wars and the eight-year war with Iran), Bosnia, and the US anti-terror war are dealt with in this section.

MFP on the Palestinian issue was predicated on the Palestinians right for self-determination and territorial integrity. Platforms such as the UN, NAM, Asean and OIC were used for policy pronouncements, which included moral support for the Palestinian cause, anti-Zionist views, criticism of Western supporters of Israel, opposition to Israel's occupation of disputed territories, as well as condemnation of Israeli invasions and incursions in Palestinian lands.

Shortly after assuming office in 1981, the Mahathir regime allowed the PLO to set up an Embassy in Kuala Lumpur. It was accorded full diplomatic status, and Malaysia was the only country in the region<sup>27</sup> and the second country in the world<sup>28</sup> to do so at that time. Malaysia had since 1982, observed Palestinian Solidarity Day by declaring it a government holiday. The regime regularly issued Palestinian Day postage stamps, and offered scholarships for Palestinian students in Malaysia. The government made regular contributions to UN efforts in Palestinian areas.<sup>29</sup> In 1983, Malaysia hosted a UN co-sponsored Conference on Palestine for Asia in Kuala Lumpur. In 1984 PLO Chief Arafat

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<sup>27</sup> *Straits Times*, September 18, 1981. Indonesia – the biggest Muslim nation in the region did not accord such recognition to the PLO.

<sup>28</sup> Shanti Nair, *Islam in Malaysian Foreign Policy*, pp. 206 says Pakistan was the first.

<sup>29</sup> Shanti Nair in *Islam in Malaysian Foreign Policy* puts the figure at US5, 000 per annum in 1981. See pp. 207.

toured the country and addressed huge rallies in Kuala Lumpur.<sup>30</sup> He made shorter and quieter visits in the 1990s. In 1988, MFA launched a Palestinian People's Fund aimed at making charitable donations to Palestinian victims of the *Intifada*. Malaysia supported UN Resolutions 238 and 242 that required Israel to vacate the occupied territories and called for PLO involvement in the future of the occupied lands.

MFP's stance on Palestine further included stands against Zionism, Israel and Western supporters of the Jewish state. Malaysia had no diplomatic relations with Israel and banned Malaysians from traveling to or having any form of contact with the Jewish state. In 1984 the regime banned the New York Philharmonic Orchestra from including a music piece by a Jewish Composer in its Kuala Lumpur performance. The action led to the cancellation of the performance by the Orchestra.<sup>31</sup> Malaysia also officially protested Israeli President Chaim Herzog's visit to the region in 1986 in the form of UMNO-led rallies in KL and Johor. UMNO had organized similar protests outside the US Embassy in KL when Israel invaded Lebanon in 1982.

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<sup>30</sup> *Far Eastern Economic Review*, August 9, 1984.

<sup>31</sup> *The South China Morning Post*, August 23, 1984.

But the most prominent feature of MFP in relation to Israel was the frequent, open and stinging criticism of the Jewish state for its actions against Palestinians.

“Having taken their homeland by force to establish a Jewish nation, should the Palestinians be hunted from one refugee camp to another and be killed during the process? Israel wages offensive wars under the least provocation, be it real or fabricated.”<sup>32</sup>

Mahathir equated the Israel regime’s brutality towards Palestinians to the German Nazi treatment towards the Jews during the reign of Hitler.

“They have forgotten the agony they had experienced under Nazi rule and are acting just like the Nazis...They are void of feeling for the suffering of others and are self-centered even in the face of worldwide criticism.”<sup>33</sup>

Similarly critical rhetoric was directed at the West for its support for Israel. “When the Jews with Western help, annexed Palestine, Muslims, including children are suppressed, evicted and killed everyday.”<sup>34</sup> Mahathir condemned the US supply of weaponry to an “international delinquent” for “nothing less than murder.” He condemned the West for its “hypocrisy and

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<sup>32</sup> Mahathir Mohamad, Speech to United Nations General Assembly, October 1982.

<sup>33</sup> Mahathir Mohamad quoted in Aziz Zariza, *Mahathir’s Paradigm Shift*, pp. 143.

<sup>34</sup> Mahathir Mohamad, Speech at The Institute of Islamic Understanding’s (IKIM’s Conference on Islam and Justice at Kuala Lumpur on June 3, 1993.

double standards" in human rights yet helping to "perpetuate the misery of the Palestinians."<sup>35</sup>

MFP treated with caution the Palestinian-Israeli Peace Agreement of 1993. Malaysia pledged \$12.5 million towards Palestinian reconstruction efforts and called on the UN to play a primary role in ensuring lasting peace in the region.

MFP's stand on Afghanistan was almost identical to that on Palestine. It was predicated on moral support for the Afghan *Mujahideen* and calls for a Soviet withdrawal of troops.

The Mahathir regime designated the day of invasion as "Afghanistan Day" and celebrated it officially since 1982. In 1985 it set up a special fund for Afghan refugees and a scholarship fund for Afghan students. The regime further allowed the *Mujahideen* to establish an office with full diplomatic status in KL. In 1987, MFP sought *Mujahideen* representation at the OIC summit in Kuwait and two years later recognized the *Mujahideen* as Afghanistan's interim government in exile.

Bosnia became MFP's primary Islamic issue in the early 1990s. MFP's stand with regard to this issue had been to (i) criticize UN's paralysis and call instead for international peace enforcement in Bosnia, (ii) condemn Western

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<sup>35</sup> Quotes attributed to Mahathir in Shanti Nair, *Islam in Malaysian Foreign Policy*, pp. 223.

callousness and double standards in dealing with the problem, and (iii) highlight the atrocities of ethnic cleansing of Bosnian Muslims.

Mahathir expressed dismay at four years of Western inaction in Bosnia.

"The Europeans have blatantly declared their intention to leave our Muslim brothers in Bosnia-Herzegovina at the mercy of the genocidal Serbs."<sup>36</sup> He insisted the West was practicing double standards by not acting against the Russian-backed Serbs.

"The actual principle subscribed to by the West...is based on Might is Right. Since the West is powerful, everything they do is fair. Since the Serbs are strong, their annexation of Muslim land is condoned."<sup>37</sup>

Mahathir compared Bosnia to Kuwait to prove his charge of double standards.

"The truth is that they acted in Kuwait because they wanted to protect their source of petroleum. Since they have no interest in Bosnia, they are willing to allow the Serbs to kill, terrorize and suppress the Bosnian Muslims."<sup>38</sup>

Mahathir blamed the UN arms embargo for the weak Bosnian government and ridiculed the humanitarian aid offered.

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<sup>36</sup> Mahathir Mohamad, Speech titled "The Plight of the Muslim Ummah" delivered at the Seventh Islamic Summit Conference at Casablanca, Morocco on December 13, 1994.

<sup>37</sup> Mahathir Mohamad, Speech at the Institute of Islamic Understanding's Conference on Islam and Justice in Kuala Lumpur on June 3, 1993.

<sup>38</sup> Mahathir Mohammad, "Islam and Justice," in Aidit Ghazali, *Islam and Justice*, KL: IKIM, 1993, pp. 2.



“The Bosnian government desperately appealed for help from the vaunted defenders of the human rights of the world, but neither the EU nor the UNSC took decisive action. Humanitarian aid was offered subject to permission being granted by the Serbian aggressors.”<sup>39</sup>

By March 1992, MFP had raised the Bosnian issue in OIC, NAM, the Commonwealth and the UN. It supported UNGA’s decision in October 1992 to expel Yugoslavia from the world body. It called on NAM not to recognize Serbia and Montenegro’s unilateral declaration of independence. It urged the OIC to provide humanitarian aid to Bosnian Muslims. It called on the UN to lift the arms embargo and use military force to halt Serbian aggression. It further made repeated calls for the resignation of UN Secretary General Bhoutros Boutros Ghali due to his perceived ineffectiveness and blatant disregard of the issue.

Malaysia provided refuge to 300 Bosnian refugees in Malaysia. It set up the Bosnian Fund, which raised \$3 million for Bosnian War victims. As with the Palestinian-Israeli Peace Accord, the Dayton Accord was greeted cautiously by the Mahathir regime. Malaysia pledged \$US10 million towards a US led program to equip and train the Bosnian army. By March 1995, Malaysia had 1,512 officers and men serving under UN auspices in Bosnia.

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<sup>39</sup> Mahathir Mohamad quoted in Abdul Razak Baginda (ed.). *Malaysia’s Defense And Foreign Policies*, KL: Pelanduk Publications, 1995, pp. 115-121.

Iraq became a focal point for MFP rhetoric in the aftermath of its eight-year war with Iran and remained so till the end of the Mahathir era. Though MFP appeared to stay neutral, it was in essence more sympathetic to Iraq with which it shared a pro-secular attitude than towards Islamic Iran. The Khomeni-led revolution had not been well received by the Mahathir regime, which feared that Iran might attempt to export its revolutionary ideas to Malaysia. The viability of the export of the Islamic revolution had, after all, been the central focus of Khomeni foreign policy in its attempt to gain support from Southeast Asian Muslims. In 1983, the Mahathir regime acted against activities believed to have been undertaken by the Iranian embassy in KL including the distribution of Khomeni propaganda at local mosques and the financial sponsorship of Malaysian Muslims to attend Islamic revolutionary seminars in Tehran, New Delhi and Dhaka.<sup>40</sup> MOHA and MFA surveillance detected covert Iranian interference in Malaysia's internal affairs.<sup>41</sup> Such actions led to the Iranian Embassy being warned and the implementation of mechanisms by way of a joint

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<sup>40</sup> Shanti Nair, *Islam in Malaysian Foreign Policy*, pp. 136.

<sup>41</sup> Correspondence with Government official dated October 18, 2004.

protocol to monitor all Malaysian visa applications to Iran beginning 1984.<sup>42</sup>

Malaysian-Iranian relations thus remained strained until the death of Khomeini.

The Iran-Iraq War provided the Mahathir regime an extended opportunity to articulate its favorite theme regarding Islamic solidarity. In recognition of its calls for peace and unity, the OIC appointed Malaysia Chairman of a Peace Committee consisting of Gambia, Pakistan, Guinea, Turkey, Senegal and PLO that was set up for the task of securing a settlement amongst the warring parties. In 1987 Mahathir publicly articulated his desire to resign from the Committee, brought about in part by the Iranian refusal to stop depicting the war as *Jihad*. Mahathir stayed on after being persuaded to do so by the OIC.

At the time of Iraq's invasion of Kuwait on August 2, 1990, Malaysia was an alternate member of the UNSC. It co-sponsored several UNSC resolutions, which condemned the Iraqi invasion and demanded the immediate and unconditional withdrawal of Iraqi forces. It voted in favor of UN sponsored trade sanctions on Iraq and in support of Resolution 678, which sanctioned military action to liberate Kuwait from Iraqi occupation.

MFP's pronouncements became sympathetic to Iraq once the action authorized by UNSC Resolution 678 was underway. Malaysia also remained an

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<sup>42</sup> *New Straits Times*, December 12, 1984.

outspoken critic of the crippling economic sanctions that remained in place for more than a decade after the liberation of Kuwait.

In the USA's fight against terrorism, Malaysia offered the super power assistance befitting an ally. In December 1995 a joint US-Malaysia intelligence operation led to the arrest of Wali Khan Amin Shah who was subsequently indicted for his involvement of sabotaging eleven US aircraft carriers in Asia in 1995 and for an assassination attempt on Pope John Paul II in Philippines, also in 1995.<sup>43</sup> Wali Khan, an associate of Al-Qaeda operative Ramzi Ahmed Yousef was further implicated in the 1993 World Trade Center bombings. After the 2001 attacks, Malaysian authorities cooperated with the US by providing vital information pertaining to the September 11 cell members who were on transit in Kuala Lumpur on January 2000. Their personal details, photographs, flight schedules and manifest were conveyed to the US authorities for perusal.<sup>44</sup> Malaysia deported suspected American terrorist Ahmad Ibrahim Bilal at the request of the FBI.<sup>45</sup> Mahathir visited Washington in May of 2002 to sign a protocol that essentially broadened the scope of cooperation to include matters

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<sup>43</sup> Correspondence with Tan Sri Ahmad Fuzi Razak, Secretary General, Ministry of Foreign Affairs, dated March 6, 2004.

<sup>44</sup> *Ibid.*

<sup>45</sup> Charles Morrison, (ed) *Asia Pacific Security Outlook 2003*, Tokyo: Japan Center for International Exchange, 2004, pp104,

concerning intelligence, counter-terrorism, immigration and the tracking down of assets of terrorists. This protocol resulted in the involvement, in terrorist fighting activities, of added Malaysian institutions such as customs, immigration and the Central Bank. Malaysia detained, under the ISA, some 100 suspects<sup>46</sup> belonging to the Indonesian chapter of Al-Qaeda, JI, but operating on Malaysian soil, including the notorious Malaysian Army Captain and US trained chemical engineer Yazid Sufaat. In November of 2002, US security agents were given access to interview Yazid who was suspected of being involved in the case of Al-Qaeda operative Zacarias Moussaoui.<sup>47</sup> Malaysian authorities have shared with US authorities, intelligence gathered from the JI detainees in Malaysia. Cooperation between Malaysian authorities and the US ones is said to have produced information that prevented planned attacks by JI on US facilities in Singapore.<sup>48</sup>

To show appreciation for the cooperation extended, US President Bush called Mahathir to seek advice prior to launching military action in Afghanistan

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<sup>46</sup> John Gershman, "US and Malaysia Now Best Friends in War on Terrorism," *Foreign Policy in Focus* Website: [www.fpiif.org/commentary/2002/0205malaysia\\_body.html](http://www.fpiif.org/commentary/2002/0205malaysia_body.html), visited on December 2, 2004.

<sup>47</sup> Correspondence with Tan Sri Ahmad Fuzi Razak, Director General Ministry of Foreign Affairs, dated March 6, 2004.

<sup>48</sup> See *Asia Times*, Sept 6, 2002 and *The Associated Press* report dated Jan 28, 2004 on *The Fox News Channel* website Foxnews.com.

to oust the Taliban regime. Bush and Mahathir met privately on the sidelines of the APEC summit in Shanghai the following year,<sup>49</sup> and Mahathir obtained a warm White House welcome on account of Malaysia's efforts in the War on Terror.<sup>50</sup>

In July of 2003, at the behest of US Secretary of State Colin Powell, Malaysia established SEARCCT – a regional center for counter-terrorism in Kuala Lumpur. The center, which is funded by the Malaysia, and was set up under the purview of MFA for the purpose of enhancing the capacity of regional anti-terrorism agencies, has been actively supported by relevant US agencies.<sup>51</sup>

MFP took a rather muted stance in the Gulf War of 2003. Mahathir's rhetoric, though decidedly against the war, lacked the characteristic sting and punch. In official pronouncements, MFP favored the positions taken by France, Germany and Russia for more weapons inspections over US attempts to obtain approval for a UNSC Resolution to authorize the forceful removal of Saddam's regime. Nevertheless, MFP did not go beyond the rhetoric phase in its criticism of the US military action.

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<sup>49</sup> CNN.Com report dated October 31, 2001. Website visited on December 4, 2004.

<sup>50</sup> Mahathir met with George Bush in the White House on May 12, 2004. See John Gersham, "US and Malaysia Now Best Friends in War on Terrorism.

<sup>51</sup> Correspondence with Tan Sri Ahmad Fuzi Razak, Director General Ministry of Foreign Affairs, dated March 6, 2004

### 6.3.1 Explaining Islamic Posturing

As argued in chapter 3 above, Islam, which had undergone a revival a decade before the Mahathir regime took power, had become a fundamental and real problem for the regime. Fundamental because it caused the regime's development formula to encounter resistance from the very group in whose name much of the ideology of the regime's economic re-distribution policies were rooted, namely the ethnic Malays; and real because it increasingly declared the Mahathir agenda as un-Islamic and combined with the organized and structured apparatus of PAS and the revivalist movements had the capacity to displace the regime through elections. Such potential in turn had the capacity to undermine the confidence of foreign interests – something absolutely vital to the regime's development agenda. The enormity of the problem with regards to Islam was crystal clear – it was during the Mahathir era that the fundamentalist PAS made its most spectacular political inroads.

Mahathir's responses to the challenge posed by Islam to the legitimacy of the regime's paradigm of national development and to its political domination included a variety of measures such as co-option, confrontation, and the promotion of a brand of "progressive" and "moderate Islam that was suited to the regime's goals of economic modernization. It was the promotion of

“Mahathir’s Islam,”<sup>52</sup> as a way of overcoming the domestic challenges of Islamic resurgence and fundamentalism that necessitated the creation of a nexus between the rhetoric of MFP and Islam. MFP provided the regime with the platform that helped earn Mahathir the much needed acclaim of a global Islamic statesman, which was in turn used both to undercut PAS and promote a regime-friendly and sanitized version of Islam at home.

To earn international Islamic credentials, Mahathir deployed MFP to conjure the pretext and context to respond to international events affecting the Islamic world. He spoke passionately of Islamic international solidarity, called for an effective OIC, criticized Islamic governments and Muslims themselves for their backwardness, articulated the problems of injustices caused by westerners, Zionism and globalization on Islam, called on Muslims worldwide to adopt the benefits of science and modernization and dwelt on the historical glories of Islam.

Mahathir incessantly voiced concerns about the major “Islamic” issues during his rule – the Palestinian issue, the Soviet occupation of Afghanistan, the Iran-Iraq war, Iraqi invasion of Kuwait, the Bosnian conflict, US invasion of Afghanistan, the ouster of Saddam Hussein and Islamic terrorists. All of

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<sup>52</sup> Khoo Boo Teik gave birth to the term. See *Paradoxes of Mahathirism*, pp. 163. Khoo argues that the term makes sense given Mahathir’s writings on Islam in *The Challenge*.



Mahathir's twenty odd speeches at the UN had something to say on the Palestine issue at the very least. In the mid 1990s, Bosnia occupied a central place in his speeches to the world body. MFP's stance on these issues was no different from that adopted by other states opposed to these actions, but Mahathir deployed his rhetoric to support three major themes: the subjugation of Muslims by others due to their weakness or incompetence, that Muslims were given to fighting amongst themselves, and that Muslims were prone to self destruction.<sup>53</sup> "Today, certain countries and races such as the Serbs and Jews, dare and are able to suppress and terrorize...because Islamic countries are all weak."<sup>54</sup> Of the Middle Eastern countries Mahathir said the situation was such that "more Muslims are killed by Muslims themselves than are Muslims killed by their non-Muslim enemies."<sup>55</sup>

Such bountiful rhetoric existed side-by-side the stark reality that Malaysia had no resources to influence meaningful change in any part of the turbulent Muslim world. It is thus argued that MFP and Islam maintained a purely rhetorical relationship because these themes were meant to resonate with Muslims at home and meant for domestic consumption. The rhetoric allowed

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<sup>53</sup> These themes run in the following Mahathir speeches: (RISEAP) General Assembly, Kuala Lumpur, December 8<sup>th</sup> 1986, UMNO Youth General Assembly, Kuala Lumpur, 25 June, 1981, and 3<sup>rd</sup> International Seminar on Islamic Thought, Kuala Lumpur, July 26, 1984.

<sup>54</sup> Mahathir, "Islam and Justice," pp. 2-7.

<sup>55</sup> Mahathir, Speech at UMNO Youth General Assembly, Kuala Lumpur, 25 June 1981. *New Straits Times*, June 26, 1981.

Mahathir to draw from the less than perfect Islamic world, compare and contrast the “problems” of Islam abroad with the “successes” of Islam created by his regime at home. It allowed Mahathir to cajole, warn, scold and plod Malay Muslims of Malaysia to support his regime. The problems of Islam abroad served as warnings of what might happen in Malaysia if local Muslims did not unite, fell prey to different interpretations and were used by other local Muslims (read PAS) to divide them. Allowing PAS to rule would mean ensuring local Muslims would be unable to stand on equal footing with the developed west and hence subject to being oppressed. In 1986 for instance, Mahathir said if the Malays did not unite, there was every likelihood that the situation in Afghanistan would be repeated in Malaysia. Other members of the regime such as Education Minister Anwar Ibrahim, Foreign Minister Ghazalie Shafie, and Finance Minister Tengku Razaleigh frequently urged Malaysian Muslims to draw lessons from the experience of Muslim peoples in countries such as Azerbaijan, Kurdistan, Albania, South Yemen, Palestine and Afghanistan who had been subjugated by the “enemies of Islam” as a result of their disunity.<sup>56</sup>

The regime’s outspokenness on foreign Islamic concerns also served to negate domestic criticism that the regime did not concern itself with things

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<sup>56</sup> Shanti Nair, *Islam in Malaysian Foreign Policy*, pp. 213.

Islamic. The global recognition that the Mahathir regime got by riding on such issues seriously undercut PAS' claim that the opposition party was more committed to Islamic concerns. Whatever PAS may claim domestically, here was a regime that concerned itself with Islam worldwide and won international acclaim for doing so. Above all, Mahathir's acquired status of an Islamic statesman provided weight of messianic proportions towards the propagation of his version of Islam at home.

The novelty of such artful use of the MFP platform for domestic objectives meant that the Islamic dimension of foreign policy did not have to translate into actions beyond the symbolic. A number of these symbolic gestures were themselves a response to pressure from UMNO Youth's International Bureau and against the advice of MFA.<sup>57</sup> There wasn't much that Malaysia could do or wanted to do, or actually did - in substantive terms - in the strife-torn Middle East, the Balkans, the Iran-Iraq war, Afghanistan or Saddam's Iraq beyond symbolic gestures such as the opening of a Palestinian mission in Kuala Lumpur, official visits by PLO chief Yasser Arafat, a ban on travel to Israel and things Jewish such as the Holocaust depicting feature film *Schindler's List*<sup>58</sup> and the

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<sup>57</sup> *Ibid*, pp. 209 points out that the decision regarding the Mujahideen representation in KL, its upgrading to full embassy status, the recognition of the Mujahideen as government in exile, setting up of the Palestinian and Afghan funds are examples of UMNO Youth initiated actions.

<sup>58</sup> The ban was eventually reversed. See *The Straits Times*, Singapore, 7<sup>th</sup> April 1994.

*Asian Wall Street Journal*.<sup>59</sup> The regime's symbolism extended to the convening of international Islamic conferences on everything from Islamic law to science and participation in international Islamic organizations such as the Asia Pacific Mosque Council and World Assembly of Muslim Youth.<sup>60</sup>

Yet so brilliant and abundant was the rhetoric and symbolic posturing that researchers have been led to conclude that Islam became a cornerstone of MFP under Mahathir.<sup>61</sup> One is hard pressed to find the evidence to support such a notion. Trade with Islamic countries did not increase in any meaningful measure during the Mahathir reign. In 1981 Trade with the Arab Islamic countries of Bahrain, Iran, Kuwait, Saudi Arabia, Egypt and the UAE stood at 2 percent of Malaysia's total exports and 8 percent of Malaysia's total imports. After a decade of Mahathir's rule, the figures stood at 2.4 percent for exports and 1.3 for imports.<sup>62</sup> By contrast the developed world (USA, Japan and Europe) was Malaysia's largest trading partner in the same period. The first decade of the

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<sup>59</sup> Malaysia claimed the newspaper was Jewish controlled. It was suspended for three months and two of its correspondent's expelled following publication of reports alleging cronyism in the government. See David Camaroux, *Looking East and Inwards*, pp. 20.

<sup>60</sup> John Esposito and John Voll, *Islam and Democracy*, pp. 138.

<sup>61</sup> Shanti Nair's *Islam in Malaysian Foreign Policy*, whose main hypothesis is that MFP in the Mahathir era underwent the process of Islamization, is case in point.

<sup>62</sup> Government of Malaysia, *Economic Report 1984/85* pp. xvii and 1990/1991 pp. xxi.

Mahathir regime saw China as the fastest growing trade partner.<sup>63</sup> One may argue that Muslim Pakistan was the single largest purchaser of Malaysian oil palm, but the smallest buyers of Malaysian products were also Islamic countries (Indonesia and Brunei – each buying only 0.4 percent of Malaysia's total exports)<sup>64</sup> indicating that factors other than Islam were at play as far as trade ties were concerned. Bilateral ties with Islamic countries remained very much unaltered when compared to the pre-Mahathir periods. Malaysian trade or investment missions did not inundate Islamic countries. Some even met with active resistance from Arab countries<sup>65</sup> indicating a poor state of bilateral ties. Islamic investment as a percentage of overall foreign investment remained so low (5.7 percent)<sup>66</sup> that the MIDA's investment attracting missions in the Middle East were discontinued in the late 1980s. Mahathir traveled abroad extensively especially to Third World countries, but Islamic countries were not a priority.

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<sup>63</sup> *Economic Report* 1990/91.

<sup>64</sup> *Far Eastern Economic Review*, March 29, 1984

<sup>65</sup> Tan Sri Kamil Jaafar, former Secretary General of MFA and later Special Envoy to the Prime Minister, speaking about Malaysia's attempts to improve trade ties with some African states said, "some major Arab countries were unhappy with that, saying we were encroaching in an area where they had interests. The Prime Minister was bitter about it." See Sergie Berthier, *The Foreign Policy*, in *Asian Affairs*, Spring 1998.

<sup>66</sup> *Foreign Affairs Malaysia*, December 1987 pp. 6-9.

Mahathir's first visit to Iran – the cradle of Islamic resurgence – came into his 14<sup>th</sup> year in power.

On the other hand, evidence exists which suggests that the nexus of Islam and MFP was never deeper than rhetorical – given that even on issues that largely affected Muslims, MFP's actions were based on considerations other than Islam. For instance, MFP rhetoric was, in line with the demands of much of the Arab and Islamic world, fiercely against the UN-led military action against Iraq in 1992. Mahathir even asserted he would only send troops to participate in the UN effort only if Mecca and Medina were threatened – implying that the decision would be based on Islamic principles.<sup>67</sup> Yet Malaysia, as a member of the Security Council then, voted for the resolution to use force. When taken to task for the incongruence between rhetoric and action by domestic groups disturbed by prospect of full scale war in the region, the regime took no action to bring one in line with other. MFP's position was that it did not take the "all necessary means" clause in Resolution 678 to mean the destruction of Iraq. One month after the vote, Malaysian Foreign Minister, Dato Abu Hassan Omar in his address to the Security Council was still churning out rhetoric incongruent with MFP's clear support for the use of force.

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<sup>67</sup> David Camaroux, *Looking East and Inwards*, pp. 22.

“We do not accept that war is inevitable...Malaysia is averse to the involvement of the armed forces of major powers in any region. That we had to be party to authorizing the use of force...does not sit well with us.”<sup>68</sup>

The Malaysian Committee for the International War Crimes Commission on the Gulf War rejected as “naïve” the hypothesis that the Mahathir regime was indeed unaware that the UN or US would act on the scale it did. The committee also found that the Malaysia voted in good faith without undue pressure from any outside party.<sup>69</sup> The Foreign Minister’s address to UNSC immediately after the vote on Resolution 678 certainly seemed to suggest that the decision was arrived at voluntarily after pained deliberations:

“Malaysia prays to the Almighty *Allah* that we have taken the right decision, that in the final analysis, in discharging our responsibilities, we are underlining the determination of the international community to push back aggression and restore Kuwait.”<sup>70</sup>

Mahathir himself had said that voting in favor of Resolution 678 had been done after “very careful consideration,” as “uncompromising on the principle of aggression” and that the appeal to Malaysia by Kuwait, Saudi Arabia, Egypt and

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<sup>68</sup> Statement of Malaysian Committee for International War Crimes Commission on the Gulf War on “Why Malaysia Supported Security Council Resolution 678 leading to the Outbreak of Gulf War on January 17, 1991,” pp. 3

<sup>69</sup> *Ibid*, pp. 4.

<sup>70</sup> *Utusan Malaysia*, December 12, 1990.

other OIC countries had been considered.<sup>71</sup> The premier even compared Kuwait's situation as a small nation to the *Konfrontasi* with Indonesia, saying, "Malaysia had needed all the help it could get from the international community."<sup>72</sup> It was clear that MFP rhetoric on this issue appeared driven by concerns of Islamic brotherhood, but its actions were motivated by other factors.

Eleven months after the war Mahathir provided another underlying motive of Malaysia's pro-Resolution 678 vote when he virtually accused the US of renegeing on a *quid pro quo* of Malaysian support for it in return for US support for the EAEC.<sup>73</sup> Mahathir revelation was prompted by the US decision to pressure Japan not to be party to the EAEC. Shanti Nair provides yet another motive.

"The event (vote on Resolution 678)...had followed closely on the heels of the first Malaysian general election which was itself preceded by the most serious intra-UMNO split and the establishment of the (opposition)... government in Kelantan. In the aftermath of a virtually crippling fracas between rival Malay political interests, Malaysia's and most particularly, the Mahathir Administration's international image needed significant repairing."<sup>74</sup>

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<sup>71</sup> *Straits Times*, December 1, 1990.

<sup>72</sup> Mahathir Mohamad, Speech at UMNO General Assembly, December 6, 1990.

<sup>73</sup> See Saravanamuttu "Malaysia's Foreign Policy in the Mahathir Period, 1991-1995," pp. 5.

<sup>74</sup> Shanti Nair, *Islam in Malaysian Foreign Policy*, pp. 244 -245.



An additional motive may be found in the prospect for enhanced ties with wealthy Kuwait in the form of the opening of the Kuwaiti market for Malaysian goods and services in the aftermath of Kuwaiti liberation. An official Malaysian delegation visiting Kuwait months after its liberation to receive the personal thanks of the Emir returned with some \$40 million worth of joint agreements on technical and information exchange.<sup>75</sup>

Even on the issue of Palestine it is evident that MFP did not intend to translate its rhetoric and posturing into action. Malaysia had, in seeking the support of the developing world for its bid for the non-permanent seat of the UNSC, made known that it intended to promote the Palestinian cause during its term.<sup>76</sup> Resolution 678 presented the best possible opportunity to do just that by linking the two issues. Given the high profile nature of the resolution, an attempt to link it to the Palestinian issue, even if unsuccessful, would have given unprecedented exposure to the plight of Palestinians. No attempts were made by MFP to undertake such an endeavor. In fact the official Malaysian statement to the UNSC in support of Resolution 678 pointed out that the Iraqi invasion of Kuwait was not perceived as a means of solving the question of Palestine. One

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<sup>75</sup> *New Straits Times* August 8 and 11, 1991.

<sup>76</sup> Statement by the Minister of Foreign Affairs before the UNSC titled "The Question of Palestine," in New York, March 15, 1990. *Foreign Affairs Malaysia*, March 1990, pp. 49-52.

may argue, as Shanti Nair has,<sup>77</sup> that Mahathir was pressured into de-linking the two issues, yet it is difficult to fathom why MFP could not have cast an abstention vote in the face of such pressure. It is more likely that MFP's position on Resolution 678 was predicated on national and regime interests and that Islam and Palestine were not factored.

In the midst of constant pro-Palestinian and anti-Zionist rhetoric, the regime made secret commercial exchanges with the unrecognized state of Israel aimed at breaking ranks with the Arab Muslim world on the issue of recognizing the Jewish state. Mahathir himself was alleged to have met with the Israeli Prime Minister in France in July of 1994.<sup>78</sup> Prior to that, Israeli TV had reported an alleged meeting between its leaders and Mahathir's close friend and brother of the Malaysian King. Foreign Minister Syed Hamid Albar met with his Israeli counterpart David Levy in 1999.<sup>79</sup> The Mahathir regime had hired an Israeli firm Solomon, Smith and Barney to advise the government in the aftermath of the 1997 financial crisis.<sup>80</sup> Members of Mahathir's party urged the government to

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<sup>77</sup> Shanti Nair, *Islam in Malaysian Foreign Policy*, pp. 247.

<sup>78</sup> *Ibid*, pp. 252.

<sup>79</sup> *Straits Times*, September 28, 1999.

<sup>80</sup> Joseph Liow Chin Yong, "Foreign Policy and Domestic Crisis in Malaysia," in *Panorama*, 2/2000.

establish diplomatic ties with Israel. It has been argued that Malaysia's desire for lower cost Israeli technology was one of the motivating factors behind the attempted rapprochement.<sup>81</sup>

Even symbolic anti-Zionist measures of the Mahathir regime were often motivated by concerns other than Islam or Islamic solidarity. In April 1986, Mahathir banned the *Asian Wall Street Journal* for three months and expelled two of its journalists in Malaysia, claiming the newspaper was Jewish controlled and part of a conspiracy by the "Jewish lobby" to undermine the government.<sup>82</sup> Yet the spark that ignited Mahathir's ire was the newspaper's reports alleging cronyism of Mahathir's ally and Finance Minister Daim. In 1994, the regime announced the banning of the film *Schindler's List* because it was "Jewish propaganda."<sup>83</sup> Yet the film's distributors were told they were allowed to screen the movie if certain scenes of sex and violence were removed. The distributors refused, resulting in the movie being shelved. The regime nevertheless scored points for its tough anti-Zionist actions. In the aftermath of the 1986 General Elections, Mahathir told Parliament that the government was closely monitoring

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<sup>81</sup> *The Far Eastern Economic Review*, July 7, 1994.

<sup>82</sup> Pamela Sodhy, *The US-Malaysia Nexus: Themes in Superpower-Small State Relations*, KL: ISIS, 1991, pp. 441.

<sup>83</sup> *International Herald Tribune*, March 24, 1994.

“a Zionists group based in a neighboring country” that had provided \$1 million to smear Malaysia. PAS, feeling that it, and not Zionism *per se* was the target of such an allegation disclosed that UMNO itself had hired the firm of Saatchi and Saatchi – “a company owned by Zionists” to handle its election campaign a few months earlier.<sup>84</sup>

Mahathir’s party protested vehemently Israeli president Chaim Herzog’s visit to the region, yet the anger was directed more at Singapore than Zionism. Philippines, which was also on Herzog’s itinerary was spared perhaps because it did not fit into the scheme of things of the organizers of the public protests. Additionally, Singapore was a better lightning rod than the Philippines in whipping up Muslim-Malay public sentiments. Sensing the folly of the misdirected anger, Mahathir called for restraint so as not to endanger bilateral relations with Singapore. Shanti Nair points out that three UMNO leaders who did not heed Mahathir’s advice – Anwar Ibrahim, Abdullah Badawi and Wan Mokhtar Ahmad – all of whom invoked Islam and Zionism in their rhetoric, won the three party posts of UMNO Vice-President, five months later,<sup>85</sup> indicating that

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<sup>84</sup> *The Star*, November 3 and 19, 1986.

<sup>85</sup> Shanti Nair, *Islam in Malaysian Foreign Policy*, pp. 228. Nair says Muhyiddin Yasin, Chief Minister of Johor – the Malaysian state with closest economic ties to Singapore lost because he was perceived to be “pro-Singapore.”

the real motives for the anti-Chaim protests had more to do with domestic politics and less with Israel, Zionism and Islam.

It is worth noting that Herzog's visit prompted no incidences of public protests in the region's other Muslim states, notably Brunei and Indonesia, lending weight to the argument that rather than being the result of a natural outpouring of Islamic sentiments against the Jewish leader's visit, the political outbursts in KL invoking Islam and anti-Zionism were organized to serve Mahathir's regime and party.

In the Balkans case, atrocities were clearly being committed by the Serbs against both the Croats and Muslims, yet Malaysia's concerns over the region ignored the former altogether. Given the choice of voicing general humanitarian concerns as opposed to just Muslim concerns, the regime chose the latter because the former would not resonate as well with domestic Malay-Muslim audiences. Going by the same premise, Malaysia's participation in the UN peacekeeping mission in the Balkans was called a *Jihad*<sup>86</sup> even though the mission had no combat role. In 1993, Malaysia hosted 200 international legislators in Kuala Lumpur to examine the killings in Bosnia – a move that had no efficacy in

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<sup>86</sup> Malaysia participated in UNPROFOR, with the defense minister declaring that its soldiers were involved in *Jihad* in Bosnia. This was retracted after the Russians objected and PAS claimed that Malaysia was indirectly responsible for the killing of Bosnians since the peacekeepers could do nothing to stop Serbian atrocities. *Ibid*, pp. 225.

affecting the ethnic cleansing, but generated substantial pro-Muslim publicity for the regime domestically. Mahathir dared the West to impose sanctions on Malaysia for wanting to sell arms to the Bosnian Muslim forces. Such rhetoric put on record Malaysia's willingness to suffer consequences for wanting to come to the aid of an Islamic country. No arms were actually sold, however. In what appeared to be an attempt to seek the flimsiest of excuses for not wanting to translate rhetoric into action, the regime cited OIC objections as the reason.<sup>87</sup>

Asean, in which there is only one other Muslim country, remained a top foreign policy priority for MFP under Mahathir, suggesting that Islam was not an issue in one of Malaysia's important foreign policy concerns. It is argued that Asean's policy of non-interference in domestic affairs – vehemently supported by Malaysia – worked against Islam in that it prevented Malaysia from speaking out on the mistreatment of Muslims in Myanmar, Southern Thailand and Philippines. Malaysia led the move to admit Myanmar into the Asean fold, and the plight of the Muslim Rohingyas was not an issue. David Camroux argues that Rafidah Aziz did bring up the Rohingyas issue – framed in terms of the defense of minority rights as opposed to suppression of Muslims so that it could obtain the support of the Chinese parties within the government and the

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<sup>87</sup> *Straits Times*, July 27, 1995.

opposition.<sup>88</sup> Yet Mahathir's refusal to criticize the Rangoon junta over its treatment of its Muslim minorities stood out as being uncharacteristic of the Islamic credentials the regime has worked hard to acquire. And if the Bosnia case is anything to go by, the support of the Chinese parties on so-called Islamic issues has never been an issue with the Mahathir regime. The DAP for instance supported MFP on Bosnia even though the Mahathir regime framed the policy in clear Islamic terms.<sup>89</sup>

For all its bountiful rhetoric on Palestine, MFP has never actively sought to use its influence in Asean to get the group to declare a common stand on the Palestinian question. Given that all Asean countries have acknowledged the Palestinian right to a homeland individually, obtaining a common stand would not have been an impossible task, yet MFP took no action in this regard.

It has been argued that MFP's discrepancies with regard to Islam and Asean exist because Malaysian political elite find that the assertion of its specific values particularly Islam is not only not given a place, but is unwelcome in

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<sup>88</sup> David Camaroux, *Looking East and Inwards*, pp. 23.

<sup>89</sup> The DAP made clear its support for MFP on Bosnia was based on the inhumanity of the atrocities. Correspondence with Dr Tan Seng Giaw, party deputy chairman dated February 3, 2005.

Asean.<sup>90</sup> However, the unwelcome-ness of Islamic values within the Asean framework or any other for that matter need not prevent MFP from basing its policies on Islamic percepts, if the regime so desired. A more plausible explanation thus is that the Mahathir regime chose not to make Islam a cornerstone of MFP principles and actions both within and without Asean.

In the US led war against Islamic terrorism of 2003, MFP rhetoric was centered on notions such as the unfair identification of Islam with terrorism by the West, the need to identify its root causes and to come up with a universally acceptable definition. But MFP actions of cooperating with the USA were grounded in principles other than Islam or the interests of Muslims per se. The incidents of September 11, 2000 and its aftermath provided the Mahathir regime just the boost it was looking for internationally and domestically. Battered both at home and abroad as a result of the regional financial crisis and the resultant political battles with the jailed Anwar Ibrahim, the regime's image and stability was at an all time low. Mahathir seized the moment to restore the regime's international profile by aligning Malaysia on the side of the US and its allies. For Mahathir the payback was as dramatic as the events of September 11. He

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<sup>90</sup> Farish Noor. "Values in the Dynamics of Malaysia's Internal and External Relations," in Hang Sung-Joo (ed), *Changing Values in Asia: Their Impact on Governance and Development*, Tokyo: Japan Center for International Exchange, 1999, pp. 170 has provided this argument.



obtained special attention from US president George W Bush and Mahathir's Malaysia rose from the low ebbs to sit on the pedestal of the model Muslim nation.

MFP's response to terrorism captures the stark dichotomy between rhetoric and actions.

"Malaysia's response to the latest manifestation of terrorism is not only to act against our own potential terrorists, but to seek to define terrorism and terrorists so that there is no ambiguity and everyone will be able to fight against them."<sup>91</sup>

The rhetoric dealt with the amorphous issues of defining terrorism, while the actions centered on using the moment to cripple his most serious foe PAS, which had been bolstered by growing support from Anwar's political base in the preceding five years.

Mahathir linked PAS to the Taliban and other forms of Islamic terrorism. Some of PAS sympathizers were arrested and imprisoned without trial using ISA laws. The regime used the images of terrorism to discount the appeal of an Islamic state amongst Muslim Malays. The propaganda machine of the regime spewed out myriad scenarios of the dangers that would befall Malaysia if PAS and its radical leadership took power. The alliance between PAS and the other major opposition parties fell apart due to pressure from members of the latter to

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<sup>91</sup> Mahathir Mohamad, Speech to Asia Society at New York on Feb 4, 2002.

disassociate from PAS. The payoff was sweet. In the General Elections that followed, Mahathir's party was able to ring in the biggest electoral victories in his two decades of power. PAS and Anwar's party were virtually wiped out. UMNO regained control of oil rich Terengganu and ended PAS's influence in Kedah. PAS lost all ground it had steadily gained in the two decades of Mahathir rule – it even lost its post of opposition leader to the Chinese based DAP. It held on to Kelantan by a precarious two-seat majority – the slimmest majority in the history of PAS rule in this poorest Malaysian state. So strengthened was Mahathir's position that he was able to retire gracefully in October 2003, handing over the reigns to his one time Team B foe turned ally – Abdullah Badawi – and setting the stage for the release from jail of his arch nemesis Anwar Ibrahim. The man who posed a threat so real and severe to the Mahathir regime that he had to be jailed 14 years on suspicious charges<sup>92</sup> was now no more than a passing inconvenience. The Islam that had become the most urgent challenge to the Mahathir regime in its two decades of power was now sullied by its connection to September 11<sup>th</sup>. Bad Islam in the form of terrorism had served Mahathir's regime as well as the good Islam he worked so hard to preach.

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<sup>92</sup> The nation's highest court quashed Anwar's conviction and ordered him released from jail within months of Mahathir's retirement. The court decision came on the seventh anniversary of Anwar's sacking. See *The Star*, September 3, 2004.

#### 6.4 COMMERCIAL AND DEVELOPMENTAL DIPLOMACY

The push for new markets for Malaysian manufactured products and services, the emphasis on reverse investments and sustained efforts to attract foreign funds, technology and capital to fuel the nation's development stand out as salient features of MFP in the Mahathir era. While the business of finding foreign markets, partners, funds, and investment opportunities outside of a nation's borders is a normal activity undertaken by the commercial sector of just about any nation, Malaysia under Mahathir stood out as different in three ways. First, these aspects were part and parcel of carefully planned and executed foreign policy initiatives. Malaysian diplomacy was geared towards using official levers to open doors in foreign lands through which Malaysian entrepreneurs entered. The regime expanded two powerful bureaucracies, namely MITI and MIDA and created a third – Matrade - in addition to the already existent Economic Division of MFA. MITI was expanded to include an entire section specializing in international commerce and MIDA, which operated directly from the Prime Minister's Department, was given additional resources. To facilitate FDI attraction for the MSC project, the regime created a specialized bureaucracy with branches overseas, namely the MDC. Additionally, the regime set up, in 1991, IDFR, an Institute now under the purview of MFA, which laid special focus

on training Malaysian diplomats in the field of commercial diplomacy. Second, Mahathir and his loyal ally, International Trade Minister Rafidah Aziz performed these functions with a personal diligence that was absent in previous administrations. Both maintained a hands-on approach<sup>93</sup> with respect to identifying target markets, conducting tireless series of visits abroad accompanied by handpicked legions of local entrepreneurs – sometimes up to a hundred - and negotiating with foreign governments, often offering tit-for-tat benefits to close deals.<sup>94</sup> Third, these MFP initiatives were supported by appropriate domestic measures. To facilitate outward investment, the regime created offshore financial facilities in Labuan, allowed tax-free repatriation of funds home by Malaysian businesses abroad and helped finance reverse investors. To attract inward investments, the regime loosened the NEP-inspired and restrictive ICA of 1974 and enacted the IPA in 1986 to make the investment climate as competitive as possible. The regime's privatization and industrialization policies further acted to facilitate foreign investment in the form of partnerships with local entrepreneurs.

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<sup>93</sup> Correspondence with N. Sivarajah, retired Malaysian Trade Commissioner to the Soviet Union and Russia, dated February 14, 2005.

<sup>94</sup> An example is the purchase of Soviet made MIG fighter planes in return for Soviet deals to buy Malaysian palm oil. *Ibid.*

Such a quest provided MFP with a commercial and developmental tint. The endeavor was helped by MFP's other orientations: Third World Spokesmanship allowed MFP access to Southern markets; Islamic posturing helped MFP gain a foothold in the newly born CIS markets; Asean Expansion helped do the same in the Indochinese states; Look East, Regionalism and MFP's pragmatic policy of maintaining good working ties with the EU and the USA provided MFP with access to technology, partnerships and funds from the developed world.

MFP strove to obtain commercial benefits in the impoverished comers of Europe, Africa, the Americas and wide swaths of Asia. Mahathir visited all the Central Asian republics and Malaysia opened up missions in Kazakhstan, Ukraine and Uzbekistan to do the same in as many of the newly born CIS countries as possible. Closer to home, Indochina and Myanmar were the targets of such initiatives. All these efforts complemented existing ones in the developed world.

Between 1991 and 1996 Malaysian businesses invested \$28 billion abroad. This represented a 46 percent year-on-year increase in the rate of investments abroad. The figure was just \$700 million in the first decade of the Mahathir

regime; with the year-on-year increase just around six percent.<sup>95</sup> In 1997 alone, Malaysia's investment outflow had grown to \$10 billion.<sup>96</sup> Beyond the volume, the nature of reverse investment and the choice of target countries – mainly third world and former communist states but including friendly Western countries - point to a concerted and sustained effort by the regime to use diplomacy to scour for commercial benefits in countries considered high risk.

Malaysian firms won housing construction projects in Albania and Cambodia; mineral resource mining projects in Somalia and Liberia; infrastructure projects in Tartastan, and Uruguay; power generation projects in Kazakhstan and Zimbabwe; forestry projects in Guyana, Tanzania and PNG; casinos in Philippines; gold exploration in Kazakhstan; flower farming in Uzbekistan, forestry projects in Cambodia and PNG; telecommunications projects in South Africa, road building in India and oil field development projects in Vietnam, South Africa, Iran and Libya. Malaysian companies have won concessions in poor and technology deficient countries such as Solomon Islands, Vanuatu, Surinam, Laos and Guyana. Malaysia's leading bank – Maybank ventured its services into Vietnam, Uzbekistan, PNG and Vietnam, while Public Bank moved into Laos, Cambodia and Vietnam. Malaysians under

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<sup>95</sup> Central Bank figures, quoted in *The Far Eastern Economic Review*, December 12, 1996.

<sup>96</sup> See Samuel Bassy et.al., *The Changing Phases of Malaysian Economy*, pp. 145

the Mahathir regime became the biggest investors in developing countries such as Cambodia, Vietnam, Burma, South Africa, India and many of the CIS states – in some cases beating established and traditional sources.<sup>97</sup> Malaysia's national oil company, Petronas derived up to a third of its revenues from international operations – a majority of which are in the Third World. Petronas ventured into gas exploration, production, transmission and a host of other petroleum related activities in 30 foreign countries – all achieved in the early 1990s.<sup>98</sup> Malaysia secured 60 percent of PNG's logging concessions. It is doubtful if any of these investments could have occurred without Mahathir and MFP's active intervention. Some of these deals – such as the purchase of Kazakhstan's largest hotel chain Alma Aty - were closed on the spot during Mahathir's visits abroad, while others such as PNG's housing construction deal took years of government-to-government negotiations to materialize. Some, such as the \$1.3 billion redevelopment of Sihanoukville – Cambodia's single largest investment – were won through international tender, but with KL's close ties with Phnom Penh playing a part. This became evident from details of the deal, which surfaced later such as the provision of a sweetener in the form of a casino and provision of an

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<sup>97</sup> South Africa is case in point. Malaysia emerged as major source of FDI there, second only to the USA and above South Africa's traditional sources – Germany and the UK. See Jomo, K.S. *Ugly Malaysians? South South Investment Abused*, Durban: Institute. of Black Research, 2002.

<sup>98</sup> *The Financial Times*, London, October 7, 2002.

aircraft to the Cambodian co-prime minister as “tea money”.<sup>99</sup> A businessman with a rose farm in Tashkent and gold mines in Kazakhstan opines, “ When I go to Argentina, all doors are open. That is the impact of what Dr. Mahathir has done with his pushing of South-South cooperation.” A Mahathir ally and Malaysia’s leading overseas investor’s agrees, “the political will is provided by the prime minister.”<sup>100</sup> A \$50 million housing project was won by Malaysian company YTL in a government-to-government deal in PNG, whose housing construction had been the domain of Australian companies. The Australian press criticized the deal because there was no bidding.<sup>101</sup> Similarly, in South Africa, YTL won a multi million-dollar housing project, MRC obtained a bid to develop the Samrand Township and Renong won a \$1 billion deal to develop the Durban international harbor zone. All three deals were won by the three Malaysian companies despite substantially higher bids from other international developers. It has been argued that the Malaysian state and state-linked corporate sector became major funders of the ANC election campaign injecting some \$ 6 million into the party’s election coffers, and that this was the motivation for Mandela’s

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<sup>99</sup> *The Far Eastern Economic Review* of December 12, 1996 quotes the Cambodian media and government officials as the source of such information.

<sup>100</sup> Businessman Salehuddin Hashim, and Ananda Krishnan, respectively, quoted in *Ibid.*

<sup>101</sup> *Ibid.*



government favoring the Malaysian companies.<sup>102</sup> The case of YTL buying 51 percent of Zimbabwe's biggest thermal power plant for US 580 million perhaps best reflects the inter-governmental groundwork that often went into Malaysia's reverse investments. Zimbabwe's president Robert Mugabe and Mahathir synchronized their official visits and public rhetoric to defend the deal against western and domestic critics. After sacking the entire board of Zimbabwe's Electricity Supply Authority for opposing the deal, Mugabe told Western governments to "go to hell because the plant is ours and we do what we want with it." Mahathir backed Mugabe during an official visit to Harare, "How can they (Western governments) ask you what you are doing (in you own country)?"<sup>103</sup>

Malaysia's experiment with reverse investments has not been limited to the developing world. Mahathir played a role in Proton's \$206 million purchase of the financially troubled but talented Lotus sports car design group based at Norfolk, England. Proton's payoff was expected in the form of a Malaysian-built Lotus designed sports car for the Asian market. Similarly *Intria* bought the financially troubled British company Costain in 1996 for \$106 million. The engineering experience and reputation of Costain helped *Intria* with a world's

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<sup>102</sup> K.S. Jomo (ed.) *Ugly Malaysians? South-South Investment Abused*, 2002.

<sup>103</sup> Quotes taken from *Far Eastern Economic Review*, December 12, 1996.

longest bridge project in Uruguay – also won by active MFP lobbying. In 1994, two Malaysian companies Berjaya and Rimbunan bought up majority stakes in forest products companies in Canada and New Zealand. Sime Darby, Malaysia bought up Hong Kong's BMW franchise and in 1996 Mahathir's son and businessman Mirzan bought the colony's Pacific Basin Shipping Company for US\$230 million.<sup>104</sup> A good number of Malaysian companies have invested in property and media interests in Hong Kong. The Carrian group, which entered the colony's property market with financial backing from the state owned Bank Bumiputera in the mid 1980s stands out as amongst the first and biggest of such endeavors. In the last five years of the Mahathir regime, MFP began showing an interest in China with the objective of making it an additional destination for reverse investments.

A parallel prong of MFP's commercial and developmental diplomacy involved the attraction of FDI to fund the nation's progress. In 1986 the regime enacted the IPA – and investment attracting legislation, which provided generous tax holidays and pioneer status for periods up to ten years. The IPA ensured higher profitability, allowed investors to repatriate profits, increase market shares, and have access to local raw materials. Tough union laws and

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<sup>104</sup> *Ibid.*

relaxed immigration laws ensured the abundant worker pool and labor-related stability that foreign investors craved. The regime frequently went the extra mile to develop working ties with major foreign investor companies to the extent that it became its trademark.

The attraction of FDI stood out as the Mahathir regime's biggest priorities. In 1981, when Mahathir took office, FDI inflow into Malaysia was no more than \$325 million dollars. Within a decade it had reached \$6.2 billion.<sup>105</sup> In 1995 just under a third of all FDI into Southeast Asia ended up in Malaysia making it the recipient of the largest share of FDI inflow, followed by Singapore and Indonesia. For the period of 1990 to 1995 Malaysia recorded a total of UD\$26.7 billion of FDI inflow. This amount constituted 31.3 percent of total FDI inflow into Asean during the five-year period.<sup>106</sup> The World Bank in 1996<sup>107</sup> reported that the KLSE had the highest market capitalization by volume in East Asia – capitalized at \$900 billion<sup>108</sup> and that foreign portfolio contributed immensely to it. In 2003, the final year of the Mahathir era, \$11.6 billion<sup>109</sup> worth of FDI flowed into Malaysia,

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<sup>105</sup> Bridget Welsh, "Malaysia and Globalization," pp. 267.

<sup>106</sup> *World Investments Report 1996*. In 1995 Malaysia received US\$5.8 billion, which was 29.7 percent of Asean's share of world FDI inflow. Singapore got 27.1 percent and Indonesia 23 percent.

<sup>107</sup> World Bank, *Managing Capital Flows in East Asia*, Washington DC: World Bank, 1996, pp. 21.

<sup>108</sup> Figure derived from Mahathir's speech "Globalization: Asian Aspirations," 1998.

<sup>109</sup> Official MIDA website: [www.mida.gov.my](http://www.mida.gov.my) visited on Dec 17, 2004.

signaling a return of investor confidence that had been shaken in the 1997 financial crisis.

The Mahathir regime added an innovation - in the form of facilitating foreign-Malaysian joint ventures - to the traditional way of looking at FDI reliant development. Joint ventures not only attracted foreign capital, but also had the potential of bringing in external expertise, experience and technology. Joint ventures were also an innovative way of targeting FDI into selected areas. These joint entities were often rewarded with big government contracts awarded under the nation's privatization programs. The task of identifying appropriate foreign firms and interests, promoting the concept to interested parties and facilitating the realization of FDI and or joint ventures lay with MFP's various instruments in particular MITI, Matrade, MIDA and MFA's economic wing.

Mahathir's Malaysia Incorporated and the Heavy Industries Policy started the ball rolling for such joint ventures. Foreign partners for the national car, Proton (Mitsubishi); still mill, Perwaja (Nippon Steel); as well as its cement production plants were hand-picked and engaged by the regime, in most cases without even sounding out other possible partners. Privatization further fed into this policy. A good many of these joint ventures were achieved on a government-

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to-government basis involving tit-for-tat negotiation methods. An example is the case of Antah Biwater, whose equity was 51 percent *Bumiputera*. The remaining was held by a Biwater Ltd – a British water supply and treatment company with strong political connections to the Thatcher government. Another example is found in Indah Water Konsortium (IWK) – a joint venture with British water treatment company Northwest Water Ltd. IWK was awarded a \$6 billion sewerage contract under the regime's privatization policy. Proton's deal with Citroen of France to produce new variants of the national car, and the national car company's acquisition of a controlling stake in Lotus, UK are other examples of regime-facilitated joint ventures. Other development projects which relied on joint ventures to succeed included the massive \$15 billion Bakun Dam Project, Putrajaya, KLIA, KL Towers. But the biggest need for foreign partners lay in the MSC project that was slated to have at least 500 foreign IT and Multimedia enterprises. The task of identifying and wooing them was entrusted to the MDC – a body with branches in targeted foreign countries working closely with MFP's other instruments. Though the regime welcomed enterprises wishing to remain 100 percent foreign owned it preferred those willing to enter into joint ventures with Malaysian companies that did possess limited know-how. By the end of the Mahathir era in 2003, MFP efforts had attracted 281 foreign-owned IT companies

to invest more than \$5 billion in MSC. By this time there were 26 joint ventures.<sup>110</sup>

European companies were the leading foreign investors, followed by USA, Singapore, India and Japan.

The one MFP initiatives that contributed most towards FDI attraction was Look East, as a result of which Japan became Malaysia's top investor in the manufacturing sector in the 1980s. In the 1990s it became the single largest investor in terms of stock in Malaysia.<sup>111</sup> Japan also provided the largest number of joint-venture companies with Malaysian entrepreneurs. Despite such success of Look East, the regime continued to look everywhere for FDI. Close ties with the Western world made the USA and UK leading investors. Sound bilateral relations with Singapore, Taiwan and Hong Kong ensured that regionally, these countries remained the biggest investors.<sup>112</sup> Overall, Singapore remained Malaysia's biggest investor mainly by virtue of geographical proximity, which allowed the city-state to relocate a good volume of its labor-intensive industries in Johor.<sup>113</sup> The fact that these biggest FDI countries were the focus of Malaysian diplomacy in the Mahathir era is given away by the allocation of MFP resources.

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<sup>110</sup> Official website of MSC at [www.msc.com.my](http://www.msc.com.my). Website visited on Dec 17, 2004.

<sup>111</sup> See "Japan and Asia: Developing Ties, in *OECD Observer*, August 1, 1999, pp. 71

<sup>112</sup> In 2003, the final year of the Mahathir era, the biggest FDI providers, in order were Singapore, USA, Japan and Taiwan. See official website of MIDA at [www.mida.gov.my](http://www.mida.gov.my). Website visited on Dec 17, 2004.

<sup>113</sup> Up to 70 percent of Singapore's investment in Malaysia is in Johor, which is just across the causeway linking the two countries. See *Far Eastern Economic Review*, March 27, 1997,

Japan, USA, UK and Singapore are amongst those countries that have the biggest and best-staffed Malaysian embassies and have adequate representations from MITI, Matrade and MIDA. USA has five MIDA offices, and the UK and Singapore one MIDA and Matrade office each. The mission in Tokyo enjoys the largest operating expenditure of a Malaysian embassy abroad. Japan has two MIDA offices and one Matrade office. Hong Kong has its own consulate and a Matrade office while Taiwan enjoys both MIDA and Matrade offices. For the MSC project, special attention was paid to India – a traditional ally in NAM, but more importantly because it was able to offer assistance based on its own Silicon Valley style project in Bangalore. A Matrade office in Chennai and trade and investment delegations led by MDC in addition to the two traditional MFA's missions in India led to it becoming the fourth largest investor in the MSC project.

#### **6.4.1 Explaining Commercial And Developmental Diplomacy**

It is argued that this prominent feature of the Mahathir-era foreign policy is best understood through an examination of the interaction of a variety of factors stemming from Mahathir's idiosyncrasy, domestic circumstances and external events.

The starting point of developmental diplomacy is traceable to both the Look East and Buy British Last – two of Mahathir's earliest foreign policy initiatives. Taken together both policies meant that while the Mahathir regime was going to continue to rely on foreign funds and expertise to fuel Malaysia's development, MFP was going to look actively for new and additional sources. The newly introduced joint-venture aspect of FDI signaled another change, namely that the regime was going to choose and pick the nature of FDI that came into the country. The choice of Japan as a major source of FDI, the notion of handpicking local and foreign entrepreneurs and using MFP resources in facilitating them, and the adoption of the Japanese model of development was essentially an idiosyncratic choice of Mahathir. As discussed in the preceding chapter, Look East was not discussed extensively in the Cabinet, Parliament or with any other MFP bureaucracy. It was very much a Mahathir-idea.

Malay-foreign joint ventures were also very much in line with Mahathir's NEP-based Malay nationalistic tendencies. These ventures were expected to better compete with Chinese businesses and hence help expand the Malay share of the nation's equity. Privatization helped in putting new businesses in Malay hands, and foreign technology, capital and expertise assisted in ensuring they survived and thrived in the form of foreign-Malay enterprises. The use of foreign



funds to finance mega projects such as the national car was much in line with Mahathir's Malaysian nationalism, which had at its core, an urge to put the nation on par with the developed world in terms of infrastructure at least.

Commercial and developmental diplomacy is also representative of the pragmatism that featured in Mahathir's idiosyncrasy. Amidst anti-Western rhetoric, Third World spokespersonship and Islamic posturing, Mahathir made sure trade and commerce based relations with Europe USA and the rest of the developed world remained alive. Despite being the target of Mahathir's most vocal attacks, quiet behind the scenes diplomacy ensured the USA remained Malaysia's top trading partner throughout the era. Despite snubbing Britain twice with Buy British Last, he was prepared to get warm with the former colonial master when the need arose. Despite his desire to have Japan play the leading role in Malaysia's development formula via Look East, he was pragmatic enough to withhold giving it a blank check. Amidst the pro-Malay nationalistic sentiments that Mahathir sometime wore on his sleeve, he was practical enough to maintain strong ties with the "Chinese" regional powerhouses – namely Singapore, Taiwan, Hong Kong and China.

Mahathir's pragmatism allowed him to recognize opportunities as much as his political savvy enabled him to take risks. It was this combination that

spurred him to push for the inclusion of the Indochinese states and Myanmar into Asean so that Malaysia could benefit reciprocally from their markets and through reverse investments. He acted along similar lines when he put MFP into high gear in the CIS countries. Sensing these former communist states would aspire for their own identity after being denied one for decades, Mahathir banked on Islamic brotherhood to help Malaysia gain a foothold before others could or would. Most of Asean states went along with the Asean-10 formula, but they and much of the developed world adopted a wait and see attitude before entering into business with unstable regimes like those of Cambodia, Myanmar and Vietnam. A similar stance was adopted by most investors as regards the CIS states. Mahathir decided it was worth it to penetrate these markets before others got in. In the case of South Africa, Mahathir calculated that investors from developed countries would adopt a cautious attitude after the ANC took control. Here Mahathir prepared the ground for Malaysian entry by developing close ties with Nelson Mandela well before the latter took the reigns of power.

Putting MFP on this risky path and leading the way himself by dealing personally with the regimes of states like South Africa, Zimbabwe, Cambodia and Vietnam, amongst others, bore an idiosyncratic trait of the premier's leadership style. He knew the way, and his way was the right way. There are no

publicly acknowledged political or economic risk analysis studies conducted by the public or private sector of Malaysia – something that potential entrepreneurs would want to study prior to venturing into unknown territories. Malaysian entrepreneurs seemed to have decided that the risk was worth it simply because Mahathir was actively leading the path, that his regime had in place all sorts of incentives, that they could count on Mahathir to sort out any major problems that they might encounter. The only business consideration seems to be their belief that they were ahead of the competition in getting there first. Whether Mahathir's boldness in this regard bears the desired fruit and whether Malaysia's reverse investments in these risky countries survive the premier's tenure would probably be judged in the post-Mahathir era. The initial record seems to contain a mix of outcomes – there are success stories like that of Petronas, that live up to the maxim that whoever enters first is master, and there have been failures brought about by problems such as corruption, bureaucratic red tape, absence of basic infrastructure such as telecommunications and political volatility.<sup>114</sup>

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<sup>114</sup> Malaysian banks that rushed into the former communist countries of Indochina discovered that antiquated banking laws, corrupt officials and non-existent facilities made profitability low. In 1993 a Berjaya executive was expelled from the Solomon Islands where it had a timber contract after a bribery scandal. In the same year, Samling Corporation suffered a US\$350 million loss after initially having invested US\$80 million in a logging contract it had gotten from the government of Solomon Islands. Both cases reported in *The Far Eastern Economic Review*, December 12, 1996.

Four domestic issues – the faltering NEP, the economic recession of 1985, the resultant political problems within UMNO and for regime stability, and the needs of national development interacted with Mahathir's idiosyncrasy to provide an impetus to commercial and developmental diplomacy.

As indicated in the Chapter 3, Mahathir's ascension to office at the halfway point of the NEP came amidst the realization that the policy's formula of expanding the economic cake before redistributing it was faltering due to falling commodity prices, a slowing down domestic economy and damp demand for Malaysian manufactured products. Malay ownership of corporate capital was mainly in the hands of government trust institutions and the nascent Malay business class was on the shaky grounds of political patronage rather than genuine and successful entrepreneurship. There was an urgent need to find new ways both to expand the economic cake as well as to create competitive and sustainable Malay businesses if the NEP was going to succeed. Venturing into new markets – including risky ones, expanding existing ones and stepping up the attraction of FDI served the needs of the former and the facilitation of Malay-foreign joint ventures the latter.

The 1985 economic crisis brought the NEP to a standstill and became a catalyst for wider economic and political problems – all of which necessitated the

increased reliance on foreign funds and markets. Its most serious impact was on the internal dynamics of UMNO and the stability of the regime. As argued in Chapter 3, Mahathir inherited an UMNO membership that had cultivated the nexus between party activism and government assistance in the form of contracts, licenses, subsidies and business opportunities. Also, the Mahathir era saw the power of ensuring regime continuity shift from the hands of the electorate at large to that of UMNO members, in particular the select party delegates who were largely business people reliant on the regime for economic opportunities. The consequence of the above two trends was that control over UMNO and regime stability during the Mahathir era lay largely in the phenomena of patronage, rent appropriation, and other forms of amalgamation of politics and economics.

The recession put severe limits on how much the regime could dole out to its supporters within UMNO. It also limited the regime's bail out plans for patronage-based entrepreneurs, forcing the regime to help only those deemed loyal. UMNO members who were left out initiated a full-blown power struggle within UMNO led by the Razaleigh faction, which almost displaced Mahathir in 1987— thus affecting the stability of the regime. Winning back majority support within UMNO and thwarting further challenges was essential if the regime was

to survive its precarious hold on power. Assistance for entrepreneurs loyal to the regime in the form of finding new markets, foreign expertise, funds and partners for privatized projects thus became instruments for the regime in this regard – in addition to assistance via domestic measures such as increased privatization. As pointed out in Chapter 3, UMNO itself went into business through its four investment arms, becoming one of Southeast Asia's largest conglomerates. Reaching there required foreign assistance in the form of reverse investments and foreign partnerships – something ably accomplished by Renong's ventures abroad. The resultant financial clout of UMNO helped push back, for a decade - the challenges that had arisen both within UMNO and to the regime's continued political dominance until they resurfaced with new players as a result of the more devastating financial crisis of 1997. Once again, the regime resorted to bailing out selected loyalist entrepreneurs, setting the stage for the regime's most serious challenge ever in the form of the Anwar episode. Jomo argues that during the 1997 crisis, foreign investments were selectively encouraged to protect and save interests favored by the regime, including those who contributed to the crisis.<sup>115</sup>

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<sup>115</sup> Jomo, *Malaysian Eclipse*, pp. 18.

Within a broader framework, commercial and developmental diplomacy was part and parcel of the regime's national development formula, particularly its emphasis on structural development in the 1980s and Vision 2020 in the 1990s. Structural development required large volumes of FDI to finance the many mega projects. This was because the regime faced severe constraints on government funding caused largely by the conflict between pro-Malay affirmative policies and its financial position. As argued in Chapter 3, the discovery of offshore petroleum helped underwrite the affirmative action measures of the pre-Mahathir regimes as well as the early part of the Mahathir era, but these earnings had reached their maximum levels by the 1990s.<sup>116</sup> Additionally, the early Mahathir period saw sharp falls in the prices of Malaysia's other commodities – tin, rubber and palm oil – resulting in loss of government revenues. Income Tax and other direct taxes accounted for the regime's most significant source of revenue accounting for 40 percent of the total direct tax revenue in the early 1990's.<sup>117</sup> An expansion of tax revenue required a corresponding expansion of the economy – something that was constrained by affirmative action policies, declining commodity prices and the fact that petroleum production has reached

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<sup>116</sup> *The Far Eastern Economic Review*, December 12, 1996.

<sup>117</sup> Government of Malaysia, *Economic Report 1995/6*, KL: Ministry of Finance: 1995, pp. 34-35.

its saturation point. The regime's development plans thus relied heavily on foreign financing in the form of FDI.

MFP's role of attracting FDI was supported by domestic initiatives which were geared to providing all the pull factors as well as integrating the nation's economy into the international one. The loosening of foreign-equity restricting ICA, the introduction of FDI attracting IPA and the NDP that emphasized growth to replace the re-distribution based NEP, were steps that showed the seriousness of the regime in this regard. The regime also relaxed immigration laws for foreign labor to provide the benefit of cheaper labor for MNCs. In addition, the setting up the Labuan offshore center, the Securities Commission and the KL Options and Financial Futures Exchange were instruments that integrated Malaysia's economy with the international one and hence made Malaysia an attractive place to invest.

The Mahathir regime's development policy, vision 2020 – the dream to become a fully developed nation within a generation – rested on the ability of the regime to double the nation's GDP every ten years between 1990 and 2020. In addition to the regime's all out effort to attract FDI, this ambitious plan necessitated the turning of Malaysia into an export-oriented economy and this in turn required the search for markets and opportunities in unfamiliar and un-



chartered waters. This explains the concerted efforts resulting in reverse investment forays into the impoverished comers of Europe, Africa, the Americas, the CIS and Indochina.

MFP's role of opening doors in government-to- government deals for reverse investments was supported by domestic initiatives in particular tax free repatriation of profits and financing facilities. Malaysian companies bringing back money earned abroad were not subject to local taxes – thus ensuring that certain portions of these profits return as domestic capital. State owned Export-Import Bank has often provided credit lines to entrepreneurs unable to raise the funds required for their overseas projects. Labuan's offshore banking facilities ensured the provision of services that deregulated the movement of financial assets in and out of Malaysia.

MFP's commercial and developmental tint was obviously facilitated by the external environment. Three systemic events – Japan's Plaza Accord of 1985; the end of the Cold War and communism and the resultant opening of the economies of nations that were born or reborn; and the spread of globalization – interacted with Mahathir's idiosyncrasies and domestic factors described above to take MFP in the direction of commercialism.

As pointed out in Chapter 4, the 1985 Plaza Accord set the ball rolling for Japan's investment boom in Asia. Within one decade of this Accord – an agreement that bound the Japanese government to yen rates that made investment in Europe less competitive - Asia became Japan's largest destination for exports and for direct investment. For all the push and pull factors spelt out in Chapter 4, Japanese FDI in Asia peaked to more than 10 billion in 1995; by which year Japan was providing up to one half of all the capital that ASEAN nations received.<sup>118</sup> The Mahathir regime tapped into this readily available source of FDI by MFP measures such as Look East. In return for Japanese willingness to invest, the Mahathir regime offered incentives over and above the normal tax incentives offered by other Asian countries - opportunities for joint ventures, friendly regime-investor ties and above all, an entire policy dedicated to facilitating Japanese investment.

The spread of globalization saw the rise of European and American capital in search of new opportunities, and again, the Mahathir regime responded with measures to attract a fair share of FDI from these areas. The initial euphoria of an FDI-based relationship with Japan had begun to fade in the late 1980s due mainly to differing expectations from both sides, and the growth

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<sup>118</sup> Japan External Trade Organization, "Trends in Japan's FDI Outflow by Region" [www.jetro.go.jp](http://www.jetro.go.jp)

of globalization offered an opportunity to look beyond just Japan. The regime ended Buy British Last and initiated domestic initiatives as a signal to the Western world that it was prepared to embrace globalization. In 1986, the regime implemented a series of market liberalizing measures, tax incentive schemes, immigration laws and capital expansion schemes aimed at integrating into the international economy. By the end of Mahathir's first decade in power, the regime had co-opted the basic pillars of globalization – privatization and liberalization into its own formula of growth. All these naturally made Malaysia more attractive in particular to Western and American investors. The MSC project was by far the strongest evidence that the Mahathir regime had embraced global finance, technology and expertise into its development paradigm. Its size, multi-billion dollar cost, underlying philosophy, its almost complete reliance on foreign expertise and domestic policy accommodations clearly indicated so.

An equally important external factor was the demise of the Cold War and communism. The birth or rebirth of eleven CIS states, three Indochinese countries and communist European states provided the Mahathir regime an opportunity to scour for commercial benefits in these new frontiers including experimenting with reverse investments. The regime banked on different appeals to gain footholds in these untested markets. Southern spokespersonship served to

smoothen Malaysia's reverse investment forays into Third World states, Islamic brotherhood in CIS countries, and Asean expansionism in Indochina. Entry into the markets of these states was obviously made easier by the fact that most investors from the developed world had adopted more cautious attitudes and were unprepared to deal with the problems of bureaucratic red tape and corruption in host countries the way the Mahathir regime dealt with them – government to government.

In conclusion therefore, Commercial and Developmental diplomacy was the outcome of the interaction of a number of factors – idiosyncratic, leadership, domestic and systemic. Mahathir's pragmatism in wanting to deploy foreign funds, technology, expertise and markets for the benefit of Malaysia's developmental goals as well as his willingness to take the risk of reverse investing in risky countries stand out as two idiosyncratic traits that helped push MFP in this direction. The premier's resolve that he knew the way and that he was right and his determination to micro-manage the policy by introducing the practice of Malaysian-foreign joint ventures; handpicking entrepreneurs; selecting markets and technology; leading the negotiation with target nations; and dealing with problems that arose allowed the policy to work fast and effectively. The deployment of Third World Spokesman, Islamic brotherhood

and Asean expansion to gain footholds in particular markets speaks of a political savvy on the part of Mahathir and is in line with his skills relating to using appropriate rhetoric for practical purposes. Mahathir's direct involvement in the policy process gave Malaysian entrepreneurs a sense of confidence that helped negate the perceptions of risk in these un-chartered waters. Commercial diplomacy was also very much in line with Mahathir's Malay nationalistic sentiments in that most of those who benefited from joint ventures and reverse investments were Malay entrepreneurs. Developmental diplomacy was in line with his Malaysian nationalism – the desire to have a developed nation by whatever means.

The premier's personal traits interacted with domestic issues – the faltering NEP, the economic recession of 1985, the resultant political problems within UMNO and for regime stability, and the needs of national development. There was a need to find new ways to create wealth prior to redistribution as required by the NEP and Mahathir was forced to look abroad. The 1985 crisis made such a need ever more urgent. When UMNO and the regime were beset with problems arising out of the economic crisis, the solution lay in patronage given the nature of the party apparatus. This in turn depended on the ability of

the regime to dole out economic benefits to loyalists. Here again the solution lay in foreign funds and markets.

Much of the commercial and developmental strides that MFP under Mahathir undertook would probably not have occurred had external events such as Japan's decision to invest heavily in Asia after the Plaza Accord, globalization, the end of the Cold War and the demise of communism not taken place. The Mahathir regime embraced these developments and adjusted domestic policies to benefit from them. Liberalization, privatization and the broader integration of Malaysia's economy with the rest of the world stand out as major initiatives in this regard. Such moves inevitably allowed MFP to take on the commercial and developmental diplomacy role to the extent that it did.

## CHAPTER 7: CONCLUSIONS

### 7.1 INTRODUCTION

This study has attempted to analyze and explain Malaysia's foreign policy in the more than two-decade long Mahathir era. The main question of the study relates to why Malaysia made the foreign policy choices it did, and the answer is attempted by focusing upon significant elements and independent sources across a variety of policy outputs. Three broad clusters of significant elements in the form of policy inputs are examined: (i) the idiosyncrasy of the main architect of MFP Prime Minister Mahathir (ii) domestic factors and (iii) external variables.

Within the cluster of Mahathir's idiosyncrasy – three main sub-factors namely his personality, leadership style and political ideology are examined. Within the domestic factors category, attention is paid to three sub-factors, namely national integration, regime maintenance and national development as the main driving forces of MFP. External factors are examined in two major forms – the behavior of selected other states towards Malaysia as well as global and regional events.

All of the above independent variables and sub-variables are utilized to explain MFP across seven major policy outputs – Buy British Last, Anti-Commonwealth, Look East, Third World Spokesmanship, Regional Engagement,

Islamic Posturing and Commercial Diplomacy. Within these seven outputs, sixteen component foreign policy initiatives are examined. Buy British Last consisted of two separate initiatives, BBL1, which was initiated in 1981 and lasted 18 months, and the 1994 BBL2, which lasted less than half that period. Third World Spokesmanship is examined across five foreign policy initiatives – The Antarctica Policy, Apartheid, the Global Environment, South-South Cooperation and MFP's push for a New World Order. Islamic Posturing is studied across seven separate issues namely the Liberation of Palestine, the Soviet invasion of Afghanistan, Iraq (the two Gulf Wars and its 8-year war with Iran), Bosnia and the US War on Terror. Commercial and Developmental Diplomacy is looked at across two distinct initiatives - developmental and commercial. The former refer to MFP's efforts in attracting foreign funds, technology and expertise to fuel the nation's development, while the latter refers to the policy's role in creating markets for Malaysian products and in facilitating reverse investments.

This chapter attempts to summarize the major findings of the study. It is divided into three parts. The first part provides summary statements and propositions relating to the independent variables as developed in Chapters 2 through 4, and the second provides a summary of the findings related to MFP



outputs as detailed in Chapters 5 and 6. The final part provides some reflections for further research.

## 7.2 PROPOSITIONS RELATING TO INDEPENDENT VARIABLES

### **Propositions relating to the idiosyncratic factor.**

- (a) That Mahathir's idiosyncrasy was the vital individual factor in determining the shape and direction of the nation's foreign policy. The Premier's background, upbringing, education, life's experiences, personality, political philosophy, nationalism and leadership style had a distinctive mark on the style, substance and nature of MFP during his era;
- (b) That Mahathir's proclivities resulted in major shifts in the substance of MFP. MFP during his era becoming more vocal and assertive while seeking a more visible role for Malaysia in the international arena.
- (c) The premier's preferences also affected policy making which moved to the prime minister's department, relegating the foreign policy establishments to justifying and implementing MFP decisions.

**Propositions Relating to the Domestic Variables Factor.**

- (a) That the need to maintain the domestic political goals of national development, integration of its multi-ethnic society and regime maintenance were the vital domestic factors that shaped MFP in the Mahathir era.
- (b) That the decline of export earnings caused by the crash of the global Tin and Rubber markets during the early Mahathir era set the stage for regime's adoption of a manufacturing based economy with the active involvement of MFP.
- (c) That the debilitating effects of the 1985 economic crisis forced to regime to systematically look for new markets abroad and endeavor to attract foreign funds;
- (d) That the failure of domestic investments to create sufficient wealth for redistribution by the NEP forced the Mahathir regime to look overseas for avenues;
- (e) That the ambitious development and modernization plan of the regime, which relied heavily on structural development led to searches for foreign funds, technology and expertise. Such a proclivity allowed defense

and security to be placed on the back burner while commercial and developmental diplomacy became the core components of MFP;

(f) That Islam posed a major challenge both to the modernization formula of the regime and the regime itself and MFP was part of the scheme to alleviate this challenge; and

(g) That the increasing reliance by the Mahathir regime and the UMNO party on rents and patronage for its maintenance and stability led to reliance on foreign avenues in this regard;

**Propositions Relating to the External Variables Factor.**

(a) That the demise of the cold war, the collapse of the communist bloc and the spread of globalization and regionalism were the major external developments that impacted on MFP;

(b) That the conduct of Malaysia's immediate neighbor and economic rival, Singapore; the region's economic powerhouse and Malaysia's top investor, Japan; and Asia's military super power and emigrant homeland of a third of Malaysia's population, China; significantly influenced Mahathir era MFP.

- (c) That the end of the bipolar world as shaped by the cold war caused MFP had to abandon equidistance, equipromixity and neutrality viz a viz the East-West divide and to re-examine its role in international organizations such as NAM;
- (d) That this change in the international power structure further meant that MFP had to come to grips with the dominance of the USA in global affairs. A similar coming to terms with the eminence of the West in international political and economic realms was required;
- (e) That the conversion of former command economies into open market systems after the collapse of the communist bloc created trade and investment opportunities that took prominence within MFP priorities;
- (f) That MFP sought to benefit from globalization by charting appropriate policy directions in order to integrate into the global economy. However, the "negative" aspects of globalization and the perception that the 1997 financial crisis was caused by globalization caused MFP to shun globalization, seek refuge in regional groups, in particular Asean and experiment with isolationism;
- (g) That Singapore factored in MFP's designs for new market penetrations and FDI attraction as a serious competitor;

- (h) That Singapore and China were seen as Malaysia's main external threats and thus influenced MFP's security and defense perceptions. Both states were simultaneously seen as providing immense opportunities for Malaysia's progress by being its biggest regional investor and market respectively, thus complicating MFP initiatives towards both; and
- (i) That the regime's decision to emulate the Japanese formula of development resulted in Japan having an enormous influence on MFP during the Mahathir period. Japan replaced Britain as the single most important nation in bilateral aspects during the Mahathir era.

### 7.3 SUMMARY OF FINDINGS.

The propositions detailed above were examined over seven major and 16 component foreign policy outputs during the 1981-2003 period. The findings of this study are that these seven main outputs and their 16 component MFP initiatives collectively validate these propositions.

All seven outputs have elements within them, which validate the view that MFP in the Mahathir era underwent significant shifts in terms of its direction, nature, substance, style and rhetoric when compared to the predecessor regimes. Of the seven outputs that constituted the Mahathir era

MFP, only one – Regional Engagement – had elements of continuity. All six others were unique to the Mahathir era. Even in the Regional Engagement output, continuity is registered only in collective security and defense initiatives. Engagement of the region as regards to economic issues – the EAEG and finding refuge from globalization - was something unique to the Mahathir era. Of the 16 components of the seven outputs studied, only two – Apartheid and the Liberation of Palestine - featured in any meaningful way in the preceding regimes. The Mahathir era, however, took both initiatives to new levels of engagement. The regime tied Apartheid to commercial and economic benefits such as using its ties with the Mandela regime to obtain reverse investment benefits and made Palestine into an “Islamic issue.” Together with a host of other issues affecting Muslims, Palestine became the core of the Mahathir regime’s Islamic posturing initiative.

All the outputs, when taken collectively prove that the traditional elements of MFP – defense and security – took a back seat during the Mahathir era. Of the seven major outputs only Regionalism deals with security. Of the sixteen sub-outputs, only two – MFP’s push for a New World Order and the behavior of Singapore and China – factor in some meaningful way into the realm of defense and security. Even then, MFP charted new directions – retrospective

arms procurement - only with regard to the behavior of Singapore. The policy preferred to let the mechanisms of collective security – as institutionalized regionally in ARF and globally under the umbrella of the UN take care of the China threat.

The outputs substantiate the view that MFP in the Mahathir era became more vocal and assertive to the extent that Mahathir earned a reputation for his spokespersonship on Third World and Islamic issues.

In attempting to offer explanations for each of the seven and 16 sub-MFP outputs, this study took the position that their coming into being is best explained through the interaction of several factors. The interaction of Mahathir's personality, leadership style, political philosophy and brand of nationalism with the domestic needs of ethnic integration, regime maintenance, national development as well as the external behavior of selected nations and global and regional developments provide fuller explanations of these outputs.

Mahathir's idiosyncratic traits – his iconoclasm, the convictions that he is always right, his pragmatism, his risk taking nature, his ruthless determination, his anti-Western beliefs and his ambition are seen in virtually all foreign policy outputs. These traits are seen in his inaugural MFP decisions such as Buy British Last, Anti-Commonwealth stance, Antarctica and Look East as well as his final

ones pertaining to globalization and Malaysia's withdrawal from the global financial markets – all of which essentially originated from Mahathir and were pushed on despite considerable opposition. Mahathir's penchant for things grandiose - making Malaysia a fully developed state and giving the country a grand place on the world stage – inspired unrealistic policies such as the Antarctica Policy. At the same time, Mahathir's pragmatism is seen from his ability to hold steady two seemingly contradictory MFP outputs that defined his regime - high profile Third World Spokesmanship, Islamic Posturing and South-South Cooperation on the one hand and behind the scenes sustained efforts to maintain good ties with the developed world on the other. That he managed to be successful in both fronts speaks volumes of his traits of practicality. The premier's boldness and risk taking nature is seen in MFP's commercial diplomacy forays into new and untested markets. He took the country into unchartered waters in Asia, Africa and Central Asia while the rest of the world decided to adopt a wait and see attitude.

Mahathir's style of leadership – non-consultative, autocratic, surgical elimination of opposition, combative, high profile, micro-management and political shrewdness bore its imprint on virtually all MFP outputs. Buy British Last, the Commonwealth Stance, and Look East stand out as initiatives that were



never meaningfully consulted within the government. These three, together with Third World Spokesmanship, Islamic Posturing and Commercial Diplomacy also display an unparalleled heart and soul involvement of the premier in virtually all aspects of the policy.

The premier's leadership style resulted in the concentration of MFP decision-making process within his offices and the relegation of the nation's foreign policy apparatus to merely justifying his decisions. This was the case with practically all major MFP outputs, except Regional security and defense issues where MFP seemed to have enjoyed limited authority. Mahathir's preference for continuity in these realms in the early part of his era probably explains this anomaly.

A significant number of the MFP outputs bear the imprint of Mahathir's brand of nationalism – an evolving entity that began as a narrow brand of “Malay nationalism,” expanded into “Malaysian nationalism” and evolved yet again into “Third World nationalism” in the course of two decades at the helm. Buy British Last and Look East were in line with Malay nationalistic tendencies – ending or curtailing the Chinese hold on the Malaysian economy and facilitating the creation of a genuine Malay entrepreneur class. Look East, Islamic Posturing, MFP's efforts to attract foreign funds, expertise and technology, finding new

markets for Malaysian goods and reverse investments were all in line with Mahathir's "Malaysian nationalism," – the zeal to see a fully developed nation standing on par with the rest of the first world. Anti-Commonwealth and Third World Spokesmanship represented the even broader "Third World nationalism" traits of the premier's political ideology – a sentiment that was grounded in the premier's belief that the international order was inherently unfair towards developing nations. The crux of his Antarctica Policy, MFP's push for a New World Order and South-South Cooperation simply was that the developed North was bullying the South and that the latter had to stand up collectively to the former.

Domestic factors interacted decisively with the above idiosyncratic traits of the Prime Minister. Buy British Last, Look East and Commercial and Developmental diplomacy were inspired by the faltering NEP which was becoming a failed policy as a result of the crashing Tin and Rubber markets, dampening demand for the country's other primary products and finally the 1985 recession. Domestic investments aimed at creating wealth for re-distribution were failing. The Malay-business class that had so far been created under the auspices of the NEP depended heavily on the government for handouts. The Malay share of the nation's equity was far off target. Buy British Last was thus

expected to help break the Chinese hold on the nation's economy and Look East and Commercial Diplomacy (reverse investments in particular) were expected to help create a genuine Malay entrepreneur class and wealth for redistribution – both NEP goals.

The needs of national development inspired Look East and Commercial and Developmental Diplomacy in the broader sense. Look East and Developmental Diplomacy attracted foreign funds, technology and expertise while Commercial Diplomacy help increase the nation's earnings through new markets and reverse investments. Islamic Posturing, Regional Engagement (Asean Expansionism) and Third World Spokesmanship collectively opened doors to Malaysian goods, services and reverse investments in the CIS, Indo China and developing world – something which ably served the needs of national development.

Islamic Posturing was intended to alleviate a major domestic challenge to the national development formula of the regime. This output represented the co-option part of regime's method in dealing with the domestic Islamic challenge in an innovative way. It provided the kind of legitimacy and status required by the regime to propagate its own version of Islam at home and weaken the appeal for the fundamentalist version accorded by the revivalist movements. MFP thus

seized on every Islamic Issue from Palestine to Iraq to help provide the regime with the stature required dealing with the domestic Islamic challenge. MFP's stand on the events of September 11, 2001 provided the regime a legitimate pretext to rein in domestic Islamic opposition, weaken PAS and undercut severely the Anwar factor.

Look East, Regional Engagement and Commercial Diplomacy further helped in the process of regime maintenance by allowing the regime to reward loyalist entrepreneurs in its quest for rents and patronage. Look East and Commercial and Developmental Diplomacy allowed UMNO to go into business in ways that help fill the party's hand-outs chest and this in turn accorded the regime the ability to overcome internal crises. Islamic Posturing too factored into regime maintenance by allowing the regime to undercut opposition to the regime amongst the more fundamental Muslims as represented by PAS and the revivalist movements. This MFP initiative allowed the regime to earn a "Global Islamic Statesman" status – something, which helped undercut PAS's appeal to establish an Islamic state upon displacing the Mahathir regime.

External events further interacted with domestic and idiosyncratic factors to shape and influence MFP outputs. Buy British Last, was on both occasions exacerbated by British rhetoric and actions. The demise of the Cold War and

Communism acted as a catalyst for Mahathir's Commercial Diplomacy by opening up new market and reverse investment frontiers. The end of East-West divide allowed MFP to shed its neutral pretenses and get closer to the USA and the West to the extent of allowing the use of Malaysian bases. This also meant that MFP had to reconsider its stand on NAM. It attempted to do so by taking a spokesperson role and broadening the scope of issues traditionally dealt with by the body. The USA's global war on terror accorded the Mahathir regime an opportunity to cement closer intelligence and security ties with the super power – something that may not have happened without the events of September 11, 2002.

Globalization had a varied effect on MFP outputs. Initially it inspired MFP's developmental diplomacy – the regime actively attracted foreign funds and technology that were becoming more readily available in a globalizing world by attempting to integrate with the global economy. Negative effects of globalization, however, forced MFP into the arms of Regionalism first and then into Isolationism. The regime perceived globalization to have caused the 1997 financial crisis and thus resorted to measures such as financial controls and withdrawal from the international financial markets – measures that outlasted the Mahathir regime.

The behavior of Singapore, China and Japan – three nations deemed by this study to be of critical importance to MFP by virtue of geographical proximity, shared history, territorial disputes as well as their military and economic strength – had a profound effect on MFP. The Mahathir regime viewed Singapore and China as economic opportunities – given their investment volumes and large markets respectively. Both were also viewed as security threats – given Singapore’s forward defense and China’s South China Sea territorial claims over the Spratlys. Regional Engagement as a distinct MFP output therefore was the result on the regime’s desire to solve regional defense and security fears by collective methods such as the ARF. These security fears prompted MFP’s change of heart from one that opposed the involvement of the bigger powers in the region’s security to one that not only embraced them but also encouraged the inclusion of India into the Forum.

Singapore’s defense behavior also encouraged the regime into an arms acquisition and defense modernization plan which ended Buy British Last and encouraged the regime to establish stronger military cooperation with the USA such as allowing the super power access to its Lumut naval base. The city-state’s economic success inspired intense competition and the regime’s Developmental Diplomacy initiative and MSC plan, which relied heavily on foreign investment

and technology as well as its reverse investment forays were intended to keep Malaysia in the race for modernization.

Japan's behavior, in particular its decision to make Southeast Asia its priority destination for investments greatly influenced Look East and Developmental Diplomacy. By unwittingly portraying itself as an alternative partner in Malaysia's quest for modernization, Japan further emboldened the regime to go ahead with Buy British Last on two occasions. Japan eventually replaced Britain as Malaysia's number one bilateral partner. Japan's willingness to work closely with the Mahathir regime also encouraged the adoption the Japanese model of development and the EAEC. Japan's experiences with public sector involvement in business – as incorporated in Japanese Inc – gave the Mahathir regime the confidence that Japan could play a pivotal role in Malaysia Inc as well as its Heavy Industrialization and Privatization policies – all of which were to be achieved through successful implementation of Look East. Similarly Japanese willingness to bail out their substantial investments in Malaysia in the aftermath of the 1997 crisis emboldened the Mahathir regime's deployment of unorthodox measures in dealing with the crisis. Japanese aid made it possible for the regime to shun IMF assistance and instead resort to bailing out Malaysia's troubled private sector. The prospect of Japanese assistance also made it possible

for the Mahathir regime to contemplate drastic isolationist measures such as currency controls and withdrawal from the international financial markets – two of the regime's most drastic foreign policy initiatives that came at the close of Mahathir's premiership.

#### **7.4 SOME REFLECTIONS FOR FURTHER RESEARCH**

Foreign policy analysis of a small developing state is by no means a straightforward and simple process. The interaction of a variety of individual, domestic and external factors as well as the interplay of various aspects of a nation's political, social, cultural, and economic life makes the study of foreign policy a challenging yet rewarding endeavor. Challenging because it provides the researcher with the feeling that there certainly is more to explore than has already been studied. And rewarding because of the expectation that any comprehensive analysis is bound to make a contribution to the scant attention that is usually paid to the foreign policies of small states.

It is in the realization of both the challenge and reward mentioned above that suggestions for further research come into being. The process of researching and writing this study brought to the surface a host of other independent and



intervening variables that were either beyond its scope or had to be left out due to a variety of practical constraints. The role of NGOs, the media, public opinion, bureaucracy, and institutions in shaping MFP need studying, even if only to test the foundational premise of this study that MFP cannot be adequately explained in terms of just one or two mega-factors. For reasons of manageability, a number of MFP outputs in the form of bilateral ties with Germany, Australia, Canada and the EU – all important in their own respects – could not be adequately explored, and need to be studied.

This study began with a perspective derived from the researcher having spent more than a decade within the administration. The limitations and drawbacks of undertaking an analysis under such circumstances create yet another avenue for further research, namely the deployment of alternative explanations. This study explored MFP outputs that appeared conflictual with other outputs (such as Third World spokesmanship and sound relations with the developed world), outputs that conflicted with domestic circumstances (Islamic Posturing) as well as outputs that had conflicting objectives (national interests versus regime interests). This study relied on the notion of pragmatism and practicality to explain and rationalize these contradictions – but not without the realization of the existence of alternative explanations. The choice of explanations

- pragmatism in this case – to explain the observed phenomena is undeniably influenced by one's perspective or paradigm, and this study is no exception.

Finally, as mentioned above, the act of researching and writing about foreign policies of small developing states - a much-ignored endeavor – is in itself a contribution. Implied in this contribution is the expectation of the need for small states to be considered as partners in global affairs. Their small size and even smaller capabilities disqualifies them from being actors on the global stage in the real sense of the term. More often than not, subjects of the system are what they have really become. But partners they certainly ought to be – given the globalizing and fast shrinking world that current generations of humankind are inheriting and the peaceful and secure world that they aspire to leave behind. It is hoped that this observation alone would inspire further research on the subject matter of this study. End.

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PhD in Political Science (International Relations and Foreign Policy) from Boston University, Boston, Massachusetts, USA, 2005.

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- 1995 Delta Phi Epsilon from The National Professional  
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