

Strategic Analysis Paper

12 August 2013

Malaysia: National Involvement in the Indian Ocean Region

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Key Points

- Prime Minister Najib Razak's moderation has seen a more pragmatic paradigm emerge in Malaysian foreign and domestic policy.
- Malaysia has co-operated with other countries in the provision of global public goods, including humanitarian and security assistance throughout the Indian Ocean region and beyond. Most notable has been its co-ordination of security and safety initiatives with other littoral states in the Malacca Strait.
- Malaysia's longstanding trade surplus and net positive capital (investment) inflow have both begun to diminish. Malaysia is employing diplomatic initiatives, reaching out to both the Muslim and non-Muslim worlds to improve its economic ties.

Summary

Under Prime Minister Najib Razak, Malaysia has continued to build on its foreign policy credentials, albeit in a more inclusive and nuanced manner. Prime Minister Razak has been a particularly active opponent of Islamist extremism and, as Defence Minister, deployed Malaysian forces on a number of United Nations-approved missions, including in such Indian Ocean Region locations as Somalia and Afghanistan.

Among the countries of the Indian Ocean Region, India and Australia stand out as particularly important. This paper will accordingly focus on Malaysia's relations with those two countries, noting some of the commonalities they share and the opportunities they

present. In the case of the relationship with Australia, it is interesting to note that relations are only now approaching a level that is more consistent with the depth of the two countries' shared histories.

Malaysia's contribution to security in the Strait of Malacca and its economic activity, with particular reference to its highly successful Islamic banking system, will also be discussed.

Analysis

Influence of Islam on Malaysian Foreign Policy

Since Prime Minister Najib Razak assumed office on 3 April 2009, Islam has continued to be a major influence on Malaysian foreign policy. That influence has, however, been more nuanced than it was during the preceding Prime Ministerships of Dr Mahathir Mohammad, and Abdullah Badawi. The Malaysian Government has increasingly come to understand Islam's role in more positive, less exclusive terms, seeing Malaysia's religious and cultural orientation as a "natural advantage" in dealing with other Islamic countries. At the same time, Prime Minister Razak is improving relations with non-Muslim countries; he sees their religious inclinations as essentially independent of their relationship with Malaysia.

The notion of "Islamic solidarity", however, has continued to be a factor in Malaysia's international orientation. Malaysia strongly advocates what it considers to be justice for Palestine and it opposed the US invasion of Iraq. Yet to fully understand why Islam is becoming less deterministic in Malaysian foreign policy, requires an appreciation of the interaction between Islam, ethnic identity, and domestic politics on the one hand and foreign policy on the other.

Prime Minister Razak's party, the United Malays National Organisation (UMNO), has enjoyed perpetual electoral success, albeit in coalition, since independence from Britain, based on strong support among the country's Malay population. Article 153 of the Constitution formally enshrines *Ketuanan Melayu*, or "Malay ownership". The Constitution also stipulates that one requirement for legal recognition as a Malay, or *bumiputra*, is adherence to the Islamic faith.¹ Malaysia's ethnic Chinese and Indian populations arrived in large numbers during British colonial times, as labourers and entrepreneurs. Upon independence in 1957, as a matter of *quid pro quo*, they were granted Malaysian citizenship, while constitutionally-defined Malays assumed an array of exclusive rights and privileges.

Malaysian politics has been historically sectarian in nature, with political allegiances largely defined in ethno-religious terms. This has begun to change, however. Malaysian political parties are seeking to broaden their appeal beyond their traditional support bases, which can no longer be taken for granted. Thus, for UMNO, strong Islamic foreign policy credentials no longer necessarily correlate to strong domestic political support to the extent that they once did.

¹ Article 160, Constitution of Malaysia.

All that is not to say, however, that a more moderate Islamic influence on Malaysian foreign policy is entirely born of domestic political pragmatism. Prime Minister Razak is regarded as being among the more progressive, reform-minded elements of his party. As Defence Minister, he oversaw the deployment of Malaysian personnel to operations under United Nations auspices throughout the Muslim world, including: Kuwait (1992), Bosnia (1993), Somalia (1993), across the Indian Ocean region following the tsunami of 2004, and in Lebanon (2006). Since the death of a Malaysian soldier in support of US troops in the so-called “Black Hawk Down” incident in Mogadishu in 1993, Malaysia has preferred to deploy on humanitarian missions, such as medical support, especially for the benefit of local civilian populations. This has been the case in Afghanistan since 2002.

Prime Minister Razak has been a particularly active opponent of Islamist extremism. He oversaw Malaysian co-operation and assistance with Indonesia, Australia and other countries in investigating and bringing to justice the perpetrators of the 2002 Bali bombings. In September 2010, at the United Nations General Assembly, he called for world leaders to condemn religious extremists regardless of their religion. He further implored the leaders to support the creation of a global movement of moderates; an initiative that, after much advocacy, was adopted by the twentieth ASEAN summit in Phnom Penh in April 2012. Prime Minister Razak remains the movement’s patron and the hope is that its role in combating religious extremism in South-East Asia will expand beyond the region. Although it was opened by then Foreign Affairs Minister, Syed Hamid Albar, in July 2003, as Defence Minister, Razak was instrumental in the establishment of the South-East Asia Regional Centre for Counter-Terrorism (SEARCCT) in Kuala Lumpur.

The Malacca Strait

Approximately forty per cent of total world trade passes through the Malacca Strait every year, borne by over sixty-thousand ships. The level of economic and strategic value of the Strait is obvious, not just to its littoral states (those with coastlines along it and thus sovereignty over waters within it), but also non-littoral (or user) states. The littoral states jealously protect their sovereignty over the Strait, which is guaranteed under the United Nations Convention on the Law of the Sea (UNCLOS). They also wish to keep the Strait from being militarised by outside powers, thereby preventing it from becoming a global flashpoint. Accordingly, they have exclusive responsibility for the provision of security in the waterway, although Article 39 of UNCLOS guarantees the right of passage through the Strait for ships and/or aircraft of any country, so long as they are transiting in a “normal” manner.²

Malaysia shares with both the other littoral states and the user states, an economic interest in keeping the Strait safe and secure as a world trade thoroughfare. This is especially the case for Malaysia, as uninhibited trade flows are essential to its economic development model (*see Malaysia’s economic activity, below*). In addition to their economic interests, the user states tend to regard the Malacca Strait in “hard” terms of strategic importance as a potential chokepoint and, thus, pivotal to the regional balance of maritime power.

² See a full copy of UNCLOS at:
<http://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf>.

Accordingly, the “great powers” among the user states, notably China, the United States and India, are eager to become directly involved in the provision of security in the Strait.

The littoral states, for their part, tend to see the Strait in “softer” terms. For them, environmental, safety and economic considerations are intertwined. The consequences of an oil spill in the Strait would, in addition to generally suffocating their trade-dependent economies, have particularly disastrous ramifications for their tourism and food industries. Given that navigational safety is a concern for all users of the Strait, Malaysia and the other littorals have had some success in attracting user-state assistance for navigational safety initiatives. The governments of the littoral states have repeatedly asserted, however, that this external assistance is insufficient; disproportionately small compared to the benefits derived from the safe navigation of the Strait by user states.

While the littoral states wish to be the sole guarantors of security against such threats as terrorism and piracy in the Malacca Strait, as developing countries with sometimes limited resources, this can present a challenge. Any perceived shortcomings in their security efforts only serve to heighten the pressure. The militaries of the littoral states have, for historical and political reasons, traditionally been wary of each other. When the piracy problem became so severe in 2004 that it was threatening the economies of both the littoral and non-littoral states, however, the economic and international pressure forced Malaysia, Indonesia, Singapore and, later, Thailand, to co-operate.

Subsequently, several joint security initiatives have been formulated that have largely succeeded in stemming the problem. These include the Malacca Strait Sea Patrols, the joint “Eye-in-the-Sky” air surveillance patrols and, perhaps most importantly, sharing of intelligence on issues pertaining to security in the Strait. Together with the 2005 resolution of the Aceh separatist conflict in Indonesia (which had brought large quantities of arms into the region, from which much of the piracy had emanated), successful piracy attacks have fallen from a high of 38 in 2004, to just one hijacking of a fishing vessel so far this year.

A major threat to the safety of navigation in the Strait that has recently come to international attention, is the longstanding issue of smoke haze from palm plantation burn-offs. The traditional method of palm oil production entails burning and clearing large areas of land during the drier months of the year. A Malaysian palm oil company, Sime Darby Berhad, developed a “zero-burning” method of palm cultivation in 1985 and, since then, the Malaysian Government has mandated its use through legislation. Malaysia was also the first to ratify the ASEAN Agreement on Trans-Boundary Haze Pollution in 2002. Yet, Malaysian companies operating outside Malaysian jurisdiction in Indonesia are among those accused, despite vehement denials, of contributing to the recent blanket of smoke that blew eastwards over the Malacca Strait to parts of Malaysia and Singapore. Indonesia remains the only ASEAN country that has not ratified the treaty, but is now likely to come under increased pressure from Malaysia and others to do so.

Malaysia’s Economic Activity

In 1991, former Prime Minister Dr Mahathir Mohammad outlined a set of national aspirations, known collectively as *Vision 2020*. Among them is the goal of becoming an

economically self-sufficient, developed country by the year 2020. This was defined as increasing the 1990 level of Gross Domestic Product eightfold, in 1990 currency terms, to 920 billion *ringgit* (RM), or \$317 billion. *Vision 2020* has been adopted and pursued by Mahathir's successors, Prime Ministers Badawi and Razak. Prime Minister Razak has, however, pointed to the unforeseen financial crises of the late 1990s (the Asian Financial Crisis) and late 2000s (the Global Financial Crisis), in observing that, despite impressive economic growth, a revised timeframe for the achievement of developed status may be needed.

Due to its relatively modest domestic market size, with a population of approximately 30 million, Malaysia has adopted an economic development model known as Export-Oriented Industrialisation. This entails attracting foreign investment into industries in which Malaysia has a comparative advantage. Malaysia competes with China and other economies for the same foreign investment "dollar" and, although reasonably successful, it has become increasingly concerned about capital flight. This has begun to occur in recent years as successful and growing Malaysian firms, such as Petronas (which, ironically, is actually state-controlled) have begun to expand and invest overseas. Rising living standards have also produced an increase in Malaysia's imports of consumer goods. Consequently, Malaysia's trade surplus has declined from RM120.3 billion (\$40.9 billion) in 2011, to RM94.8 billion (\$32.3 billion) in 2012.³

The Malaysian Government has adroitly facilitated the emergence of a world-leading Islamic finance sector, as a subset of its broader national finance sector. This began in 1963, with the establishment by the government of a special fund for Muslims saving for their pilgrimage to the Hajj. Strict government regulation has also been decisive, since moral and theological credibility among would-be Muslim clients is essential to the sector's success. This has been achieved by the establishment of two Sharia Advisory Councils. Its Islamic finance sector has been of tremendous competitive advantage to Malaysia in the world economy in two ways. First, it has, in general, been a catalyst for trade with other Muslim countries, particularly the Gulf States. In 2011, Malaysia signed a framework agreement with the Gulf Co-operation Council, based on shared cultural, historical and religious values; aimed at boosting two-way trade and investment.⁴ In the information age, when government and commercial activities are subject to unprecedented public scrutiny, countries with Muslim populations are finding trade with each other an increasingly attractive proposition. Second, and pertinent to the problem of capital flight, Malaysia's Islamic finance sector has begun to give it an advantage in attracting foreign investment from other Muslim countries.

³ Malaysia External Trade Development Corporation (MATRADE). <<http://www.matrade.gov.my>>.

⁴ 'Malaysia-GCC Framework Agreement on Economic, Commercial, Investment and Technical Co-operation', Ministry of International Trade and Industry, Malaysia. <http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.article.Article_db099c37-c0a8156f-23072307-3c9d8b44>.

Malaysia's Bilateral Relations with India and Australia

Malaysia's relationship with India is particularly worthy of analysis as it has relevance to all of the three previous topics: Islam, the Malacca Strait and economic activity. Despite the existence of strong cultural and personal links, owing to Malaysia's large ethnic Indian population and a common British colonial history, Malaysia-India bilateral relations have historically been hindered by a certain mutual suspicion. Although it was a mainstay of the non-aligned movement during the Cold War, India nevertheless maintained close relations with the Soviet Union. Malaysia's experience of communist insurgency in the 1948-60 Malayan Emergency, however, left it traditionally wary of India's ideological dispositions. The thawing of the Cold War has now largely negated these concerns.

India has traditionally been wary of the influence of Islam on Malaysian foreign policy. This is not only due to the historical Indian-Pakistani rivalry and the Islamist terror attacks suffered by India, but also because India and Thailand, which consider themselves "funnel" states of the Malacca Strait, have co-ordinated patrols in its western approaches and strengthened their strategic relationship. India and Thailand have long suspected that there is Malaysian support for Islamic separatists in southern Thailand. Under Prime Minister Razak, however, relations with India have greatly improved. Internationally recognised as a moderate, his efforts to counter extremist ideology and combat terrorism, especially in South-East Asia, have done much to allay Indian suspicions.

The Free Trade Agreement between Malaysia and India, formally known as the Malaysia-India Comprehensive Economic Agreement, entered into effect on 1 July 2011. During the year ending 31 March 2012, Malaysian imports from India were worth RM12.66 billion (\$4.3 billion), while its exports to India during the same period totalled RM30.4 billion (\$10.3 billion).⁵ The healthy trade surplus is based largely on exports of oil, petroleum and related products, machinery and other transportation goods. Malaysia has also succeeded in attracting Indian investment in industries as diverse as bio- and information technology, palm oil products and refining, infrastructure, and the manufacture of industrial and consumer goods.

Since Malaysia's purchase of MiG-29 aircraft from Russia in the late 1980s, India, which also operates Russian military aircraft, has trained Malaysian pilots. In 2008, a team of Indian pilots, maintenance staff and weapons system operators began training Malaysian personnel in the operation and maintenance of the Russian-built Su-30 MKM fighter jet. The Indian Navy has also offered to assist with training for the crews of Malaysia's two *Scorpene*-class submarines recently purchased from France, since they are also operated by India. One of these vessels is named after Prime Minister Razak's father, former Prime Minister Tun Abdul Razak.

Najib Razak's election to the Prime Ministership in 2009 has been a harbinger for greatly improved relations with Australia. He has sought a much more co-operative relationship, not just with Australia, but with Western countries in general. The proposed "people-swap" deal

⁵ 'India-Malaysia Economic and Commercial Relations', High Commission of India: Kuala Lumpur. <http://www.indianhighcommission.com.my/two_way_trade.html>.

between Malaysia and Australia, pertaining to asylum-seekers, is one example. This arrangement was mutually agreed before being struck down in Australia's High Court. Given the ongoing political and military conflict in the Middle East, the emergence of a moderate, relatively progressive and democratically-elected government in a Muslim-majority country, has the potential to set an exemplary precedent.

Australia's relationship with Malaysia has generally had a low-profile in the Australian media since the end of the often antagonistic Mahathir era. Approximately \$130 billion worth of Australian trade flows through the Malacca Strait annually.⁶ Accordingly, Australia has been a strong supporter of, and contributor to, the Co-operative Mechanism between the Littoral States and User States on Safety of Navigation and Environmental Protection in the Straits of Malacca and Singapore.

Malaysia is Australia's tenth-largest trading partner and is an important market for the Australian education sector: over 14,000 Malaysian students were resident in Australia in 2012. In the same year, Malaysian investment in Australia totalled \$14.9 billion, while Australian investment in Malaysia was \$7.9 billion.⁷ These relationships have been further strengthened by the conclusion of the ASEAN-Australia-New Zealand Free Trade Agreement in 2010 and the bilateral Australia-Malaysia FTA in 2012.

Australia and Malaysia have also had a relatively successful history of military and strategic co-operation, dating back to the 1962-66 *Konfrontasi* period. Both countries were foundation members of the Five Power Defence Arrangements, which included a longstanding Royal Australian Air Force presence at Butterworth, in the state of Penang, until that base was transferred to the Royal Malaysian Air Force in 1988 (This is quite significant, given ASEAN countries' historical concerns over territorial sovereignty). Like all Muslim-majority countries with moderate democratic governments, Malaysia also shares with Australia a common adversary in Islamic extremism.

In view of the history and the obvious economic complementarity that exists between them, good relations between Malaysia and Australia should be a given. Unfortunately, the relationship has been subject to the vagaries of their respective domestic politics, but the future prospects are good. Prime Minister Razak has overseen the emergence a new paradigm in Malaysian politics, which is more engaged with Western countries in general, including Australia. Meanwhile, Australia is becoming more conscious of its place in Asia, as confirmed by the recent *Australia in the Asian Century* White Paper.

Conclusion

Malaysia's economic development goals have come to assume pride of place among the influences upon its foreign policy. Indeed, Malaysia's leaders view internal and external

⁶ 'Paper Presented by Warren Snowdon MP, on behalf of Stephen Smith, Minister for Defence, to the Perth Counter-Piracy Conference', 16 July 2012.

<<http://www.minister.defence.gov.au/2012/07/16/paper-presented-by-warren-snowdon-mp-on-behalf-of-stephen-smith-minister-for-defence-to-the-perth-counter-piracy-conference/>>.

⁷ Funston, J., 'Australia-Malaysia Relations', *New Mandala*, 24 June 2013.

<<http://asiapacific.anu.edu.au/newmandala/2013/06/24/australia-malaysia-relations-are-the-difficulties-over/>>.

stability on the one hand and economic prosperity on the other, as being synonymous. Malaysia's unique characteristics are also presenting new opportunities. Under the stewardship of Prime Minister Najib Razak, Malaysia is simultaneously pursuing closer diplomatic and economic relations with Western, East Asian and majority-Islamic countries. This has the effect of placing Malaysia at the crossroads of a variety of cultures and economies, to each of which it may, in various ways, become an exemplar.

Malaysia has shown not just willingness but enthusiasm for contributing to global public goods. As Malaysia's material capabilities grow with its economy, this contribution will continue to increase. Consequently, the generally high esteem in which it is held internationally should continue to grow also.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.

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