

**DISCOURSES ON POLITICAL REFORM AND DEMOCRATIZATION IN EAST  
AND SOUTHEAST ASIA IN THE LIGHT OF NEW PROCESSES OF REGIONAL  
COMMUNITY BUILDING**

Project Discussion Paper No. 14/2001

**Why is Malaysia not Disintegrating?  
Islam, the Economy and Politics in Multiethnic Malaysia**

**by  
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## Preface to the Paper Series

The present discussion paper series of the Institute of East Asian Studies accompanies a research project entitled *Political Discourses on Reform and Democratisation in Light of New Processes of Regional Community-Building*. The project is funded by the Deutsche Forschungsgemeinschaft and supervised by Thomas Heberer.

The central topic of interest is, as the title of the project suggests, the influence exerted on the political reform process by political discourse. The papers published in this series address the public political discussion at the national as well as the transnational, regional level. Accordingly, the papers display a variety of discourses that have emerged in different countries and centre round different political issues. Contributions from authors of the region are particularly welcome, because they reflect an authentic view of the political discussion within the local public. By integrating and encouraging the local voices, the project team intends to compile a collection of papers that document some important debates and states of the research process.

The current political discourses in East Asia are primarily analysed in case studies of two authoritarian states (China, Vietnam), a multi-ethnic, formally democratic state with strong authoritarian features (Malaysia), and a democratic state with significant parochial structures and patterns of behaviour (Japan). In addition to these case studies, contributions from and on other countries of the region are included to provide a broad scope of comparable discourses.

While Claudia Derichs and Thomas Heberer are the editors of the paper series, a project team of eight members conducts field work in East Asia and brings forth regular proceedings. Research reports other than discussion papers shall be published in refereed journals and magazines. Detailed proceedings leading to the final results of the research project will be published as a book. The project team is composed of research fellows associated with the Chair for East Asian Politics at the Gerhard Mercator University of Duisburg. The team members are: Karin Adelsberger (area: Japan); Claudia Derichs, Ph.D. (Malaysia, Japan); Lun Du, Ph.D. (China); Prof. Thomas Heberer, Ph.D. (China, Vietnam); Bong-Ki Kim, Ph.D. (South Korea); Patrick Raszelenberg (Vietnam); Nora Sausmikat (China); and Anja Senz (China).

Paper No. 1 of the series provides a detailed idea of the theoretical and methodological setting of the project. Each discussion paper of the present series can be downloaded from the university server, using the following URL: <http://www.uni-duisburg.de/Institute/OAWISS/Publikationen/index.html>. Suggestions and comments on the papers are welcome at any time.

Duisburg, June 2000

Claudia Derichs and Thomas Heberer



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Why is Malaysia not Disintegrating? Islam, the Economy and Politics in Multiethnic Malaysia

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**Zusammenfassung/Abstract:**

The question why Malaysia is not disintegrating like its neighbour country Indonesia and other multiethnic countries in the region or even around the world, is addressed here from a socio-historical perspective. The role of religion – Islam – and economic policy is described by illustrating their critical function and their peculiar conversion in the developmentalist setting of Malaysian politics. The emergence of the political reform movement of the late 1990s is located and understood within in a longitudinal and historical-structural framework. Security, ethnic bargain, and development planning are defined as the central pillars of Malaysia's development as a multiethnic society which is caught in cultural contestations but nonetheless stable.

**Schlüsselwörter/Keywords:**

Islam, Islamization, development, democratization, Malay, Malayness, ethnic, ethnicity



# WHY IS MALAYSIA NOT DISINTEGRATING? ISLAM, THE ECONOMY AND POLITICS IN MULTIETHNIC MALAYSIA

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# WHY IS MALAYSIA NOT DISINTEGRATING? ISLAM, THE ECONOMY AND POLITICS IN MULTIETHNIC MALAYSIA

*Shamsul A.B.*

“Cultural differences between people brought face to face by modern circumstances can of course lead to tensions and misunderstandings and conflicts, but they can also serve as a stimulus and a context for the enrichment of one another’s cultures and forms of life in many fronts...Thus we arrive at an enlightening paradox: differences between groups make toleration necessary, but toleration in turn makes differences possible and could stimulate pluralistic efflorescence and creative innovation.”

(Tambiah, 1999:91)

## INTRODUCTION

Multiethnic Malaysia aims to become, economically, a “fully developed industrialized society” and, politically, a “united Malaysian nation”, and both are to be achieved by the year 2020, hence Malaysia’s “Vision 2020”. At least that was the claim made by Dr. Mahathir Mohamed, Malaysia’s prime minister, in a famous speech on 28 January 1991 entitled “Malaysia: The Way Forward”. For about a decade, between 1987 and 1997, Malaysia did enjoy an unprecedented eight per cent plus economic growth and a political stability admired by countries around the world, especially from those in the Third World. Malaysians began to believe that the ‘Vision 2020’ set by Mahathir is achievable. Indeed, a social euphoria of success embraced the society. It was summed up in two simple Malay words “*Malaysia Boleh*” (lit. “Malaysia Can” or “Malaysia is capable”).

As the two ambitions seemed to be nearing realization, the economic crisis came. One may ask ‘what would happen to the political agenda when the economic one seems to be nearly derailed’. Many even predicted that Malaysia will be the next Sri Lanka because the economic crisis would break the society apart and the multiethnic unity would be thrown asunder.

Domestic economic and political developments during the first year of the crisis seemed to have lent credibility to the rather negative international image constructed mostly

in the mass media. They were two main ones. First, there was the introduction of the monetary exchange control in September 1998 that was viewed unfavourably by the international financial community, especially the IMF and the World Bank. It was simply considered as a bad economic decision. Second, in the political sphere, there was the sacking of Anwar Ibrahim, the then Deputy Prime Minister (DPM) by Dr. Mahathir Mohamed, the Prime Minister (PM) himself. It was a decision condemned by many as a conspiracy and by some as one that was motivated by the deep difference in the approach between the two top leaders to solving the economic woes in Malaysia. His trial was perceived by many, both in and outside Malaysia, as a rather 'problematic' one.

Indeed, the political situation has become rather fragile since moving into the 'crisis mode' in the last quarter of 1998. It is not unrelated to the economic crisis that has affected greatly Malaysians from all walks of life since the middle of 1997. Enmeshed and embedded into the political crisis are economic issues and into the economic crisis political issues. Although one could still separate analytically these two crises, only in extreme contexts of course, generally however the discussion on one shall automatically trigger-off the other.

From the day of Anwar Ibrahim's sacking, on September 2, 1998, until the announcement of the court verdict, on 14 April 1999, a period of about thirty weeks, Malaysians and the rest of the world witnessed the longest sustained attack ever on the government in the history of post-colonial Malaysia. It was an attack that has a very broad popular appeal, combining numerous interest-oriented groups and opposition political parties. It has no precedent in Malaysian politics. It is not over yet and continues to build momentum.

Without doubt, during those thirty weeks, Malaysian's political consciousness have been awakened like never before by the 'new politics' movement, known simply as *reformasi*. Malaysians are now confident that they can demand change without at the same time risking racial strife, as seemed likely in the past (indeed the justification for Operation Lalang of 1987). They also know that enough pressure can cause the government to compromise.

Despite the severity of the impact of the recent economic and political crisis, for the majority of the Malaysians, it was the 'ethnic blood bath' of May 13, 1969 that is commonly perceived as 'the real crisis', the kind that they have to work hard at avoiding. As such, they have no choice but to cope with the crisis in the most reasoned manner so that Malaysia do not turn into another Yugoslavia or Sri Lanka, or return to the dark days of May 13, 1969. That Malaysia is recovering rather fast compared to its neighbours from the current crises is owing both to economic and political factors. In other words, an understanding of the present

economic crisis and recovery in Malaysia should be located and understood within a broader and longitudinal historical-structural concerns.

In that broad context, I wish to highlight the significance of the 'religion' dimension in Malaysia, namely, Islam, not only within the political realm – its traditional realm and analytical site – but also within its new realm, namely, the economic one. Indeed the critical stabilising role of Islam, 'Islamic economics' and 'Islamic financial institutions' in Malaysia, perceived or real, in the recent crisis, especially amongst the Malay Muslims who form the majority of the Malaysian population, has never been given an analytical treatment that it is due. This is an exploratory attempt towards that end.

Therefore, in this brief discussion, I intend to do the following: first, to outline briefly how ethnicity, religion and the economy came to be fused historically (namely, the fusion of Malay & Malayness, Islam and the economy), touch on the series of social and economic 'crises' during the post-war and post-colonial period faced by the Malay Muslims and other ethnic groups in Malaysia, and outline State efforts in trying to resolve these crises until recently; second, to focus on the 'mainstreaming' of Islam in the 1980s, through a number of strategies adopted by the Malaysian State, including an important economic one (namely, Islamic financial institutions), interested to find a religious middle-ground in a multiethnic society; and, third, to observe the importance of the 'rhetoric of Islam' and the high-profiling of the so-called 'Islamic economics' (or simply financial organisations) in the recent economic crisis as a strategy to cope with the problem, both economic and non-economic in nature.

## **THE CONVERGENCE OF RELIGION, THE ECONOMY AND POLITICS**

Malaysia is a multiethnic and multireligious country in Southeast Asia. Of the population of 20 million, Malays, who are Muslims, constitute 55 per cent. They are the dominant political and cultural force. The ethnic Chinese (34 per cent), the ethnic Indians (9 per cent) and small indigenous groups (2 per cent) – all of whom are non-Muslims – constitute almost the other half.

Because the Malays are themselves divided politically, the support of Chinese or the Indians is critical to any Malay faction not only in ensuring its survival as the dominant political force but also, ironically, for the continued political dominance of the Malays. Therefore, Malay dominance has always been a negotiated one, which explains why inter-ethnic and inter-religious coalition parties, whether as an opposition or as the ruling party, have dominated democratic electoral politics in Malaysia since the end of World War II.

Religion has become the ethnic identifier. It is certainly the case for the Malays. By default, it is also for the non-Malays, who are perceived by both the authority and the public as, first and foremost, non-Muslims and later Christians, Buddhists, Hindus and others. Although the powerful cultural influences of Buddhism and Hinduism affected the inhabitants of the Malay world, it was Islam, brought by Arab and Indian merchants and Chinese traders from the fourteenth century onwards, that came to dominate the spiritual and material world of peoples of the region living under a number of feudal rulers.

Islam became the source of legitimacy for the Malay rulers, called *raja*, and the complex of hierarchical institutions within the ambit of feudal power and authority, or *kerajaan*, became Islamicized, too, but often spiced with local, pre-Islamic cultural flavours. Although Islam and Malay identity fused during this era, many Hindu and pre-Hindu practices, collectively referred to and embraced as *adat*, or customs, were still observed by both the ruler (*raja*) and his people (*rakyat*). 'Malayness' had two central pillars: Islam as the religious and universal one, and, *adat*, or the Malay customs, as the local moral one.

In the eighteenth century, the British colonized Malaysia introducing a clear distinction between religion and the state through a civil administration and a legal system different from the Islamic and *adat* (customary) legal system and courts. To colonize millions of hectares of virgin tropical forest and turn them into rubber, oil-palm, and coffee plantations, the British brought in thousands of indentured labourers from India and China, changing the makeup of Malaysia society forever.

Separation of religion and the state and ethnic pluralism, became major political issues throughout the 1930s, during the Second World War and until the early post-war period, articulated as ethnic-based and religious-oriented nationalist movements. The Malay nationalist movement was fragmented, but factions within were united on the role of Islam as the definer of Malay identity and as one of the three pillars – along with Malay language and Malay ruler – of the imagined Malay nation. Chinese immigrants were divided over the issue of 'home-land'. Some considered Malaya their home but many looked at China.

The Japanese Occupation (1941-1945) transformed ethnic and religious politics in Malaysia into an open and eventually violent conflict. A faction within the Malay nationalist movement welcomed the Japanese and worked with them but the rest supported the anti-Japanese movement led by the British. Because the Japanese had massacred thousands of innocent Chinese and buried them in mass graves in Malaysia, the Chinese were totally anti-Japanese and supported British efforts to wrest control of Malaysia.

When the Japanese surrendered in 1945, ethnic violence broke out in many places and continued about fourteen days. It was mainly between Malays, especially those who were perceived as collaborating with the Japanese, and the Chinese, from the radical group within the anti-Japanese movement. Hundreds were killed on both sides, children and adults. Although the Chinese attack was both ethnically and ideologically motivated, the Malays resorted to Islamic and pre-Islamic cult practices to defend themselves. A series of open, if minor ethnic conflicts followed in Malaysia.

The British tried to contain this ethnic conflict by attempting to establish a unitary state through the 'Malayan Union' project, in which feudalism was to be abolished and citizenship granted for all. The union failed and in 1948 a 'federation type' government was reinstalled, consisting of the Malay rulers and their provincial states and forming the Federation of Malaya (later Malaysia).

The somewhat problematic 'federation' structure of governance still survives. Through the Constitution, it institutionalised a multiethnic and multireligious political system that left society in a 'state of stable tension'. On May 13 1969 an open ethnic conflict broke out mainly in Malaysia's capital city, Kuala Lumpur. The conflict involved mainly Malays and Chinese, both resorting to ethnic and religious strategies and actions.

The aftermath of 1969 brought about two major changes. First, the formulation and implementation of long-term state-initiated pro-Malay affirmative action policy called the New Economic Policy (NEP) of 1971-1990. Second, it also led to the rise of Islamic resurgence, especially among Malay Muslim youth, which has affected not only the non-Muslim non-Malays but also the Malay-dominated state itself.

The NEP created the much-needed 'economic space' for the Malays. Its success was totally dependent on the state intervention and the critical support of the Chinese business community. What was once known as "Ali (Malay) – Baba (Chinese)" relationship, Malay-Chinese interaction and cooperation in the business sphere have developed into "smart partnership" with a "win-win result". NEP thus 'de-ethnicised' some aspects of the ethnicised or stereotypical perceptions regarding "the economy", both at the macro and micro levels.

For instance, besides Chinese, Malay middlemen are now a common sight in the rural areas. Thus a shortage of food supply, say rice, at the grassroots is now perceived as an 'economic' problem not an 'ethnic' one. In the past, the problem has always been attributed to the "exploitative Chinese middlemen". Also, the Malays, as the result of the NEP, could now boast their own billionaires, a successful community of corporate players and an expanded middle class. However, what went unnoticed, as a consequence of the manufacturing-driven

NEP, was the explosion of the urban Malay working class, the majority of whom were of rural origin.

The impressive material success of the Malays brought about by the NEP -- not unexpected -- also resulted in numerous 'social problems', accentuating old ones and creating new ones, from 'money politics' to 'child abuse'. Indeed the speed of the implementation of the NEP and its consequences, both economic and non-economic, impacted different groups within the Malays differently. This comes as a no surprise because the race towards 'modernity competence' has its set of costs and problems. For instance, modernization, instead of increasing secularization, in Malaysia, has increased religious concerns and activities within the community, especially amongst the Malay Muslims.

The rise of an Islamic resurgent movement, or popularly known as *dakwah*, in early 1970s, which was originally dominated by Malay Muslim youth, mainly university students, was subsequently embraced and enhanced by the Malay-dominated state. The latter's *dakwahisation* efforts became obvious in the second decade of the NEP, that is, from 1980 onwards. This could be perceived as state-sponsored method of coping with the pressures of 'modernity competence' demands. It could also be perceived as exploiting 'local strengths and advantages' to complement and colour the 'globalising' influence of the world economy. For instance, various types of Islamic financial institutions were established to complement the successful non-Islamic ones, not only for Malay Muslims but also for those interested to save and invest using the 'Islamic way'. Malaysia's involvement, at the international level, in Islamic-related activities especially through the OIC (Organisation of Islamic Countries) increased significantly.

During the NEP, the combined influence of Islamic resurgence and a successful pro-Malay affirmative policy managed to create a heightened sense of Malayness. This in turn generated a new level of confidence amongst the Malays vis-a-vis the Chinese and other ethnic groups. Thus the NEP, according to prime minister Mahathir, successfully bred a community of *Melayu Baru*, the 'New Malay', competent and confident to be full-fledged players in the open and increasingly level playing field in Malaysia.

In the 1990s, the NEP, after two decades of dominating social life in Malaysia, was replaced by the NDP (National Development Plan), in effect a watered down NEP. However, the introduction of the NDP also reveals that, in the face of globalisation, the tradition of nation-state based planned change, such as the NEP, is ending. Nonetheless, this does not affect the new found confidence amongst the Malays in the 1990s. The fact that the concept of '*Bangsa Malaysia*', or 'a united Malaysian nation', which recognises plurality and difference

within the society, was introduced by the Malay leadership within the government, in 1991, as a kind of state ideology is indeed indicative of this Malay renewed confidence.

However, 'Malayness' was not only about redressing perceived socio-economic imbalances and injustices but also about ethnicity, language, custom, provincial identity, and culture, with Islam as the essential ingredient. Moderate state-defined Malayness is not uncontested, however. The Parti Islam SeMalaysia, or PAS, the main Islamic party in Malaysia that has controlled the province of Kelantan for decades now, remains the credible alternative definer of Malayness. At the everyday level, Islam enjoys a common appeal to Muslims of all classes and background, making it almost impossible to identify which particular ideological interpretation, voice, personality dominates the grassroots.

Islam has become more visible in Malaysia than ever before. It is not simply a cultural and symbolic entity for the Malays. Islam has now become an integral part of the modern mainstream economic sphere, as a result of policies such as the NEP. The proliferation of Islamic financial institution, medical centre, counselling and social work services, tourist agencies, and supermarkets and clothing, furniture, food and confectionery factories have indeed expanded the exercise of 'consuming Islam' for the Malays from one that is largely spiritual, abstract and symbolic to one that is highly profiled and materialistic.

With increased emphasis on Malay and Islamic identity and consciousness in economic and public life, the relationship between the Malay-Muslims and the non-Malay non-Muslims has been perceived, by some observers, as becoming more strained thus posing a challenge to an idea of Malaysia as a united nation. But most religious and ethnic minorities have preferred to stay in Malaysia, taking advantage of the booming Malaysian economy. In the popular mind, there seems to be a consensus that no amount of economic loss is worth the sacrifice of any human life.

The recent economic crisis is said to be worse than the one Malaysia experienced in the mid-1980s. But there is little basis for such an 'apple vs. apple' comparison. Until the mid-1980s Malaysia was a struggling primary commodity-based economy. After that crisis, Malaysia had enjoyed a decade of uninterrupted eight per cent plus manufacturing-based economic growth. It brought about major transformations within the society as a result of its openness to global influence. Meanwhile, both the state and society has also developed their own domestic and internal defence mechanisms, mainly based upon locally-generated conservative forces such as ethnicity and religion.

It is within this framework of conservative forces, with ethnicity and religion as the two main components, that the impact of the recent economic crisis on Malaysia has to be

understood. We shall now examine briefly how the Malaysian state establish and consolidate the conservative framework that seemed to have enabled the Malaysian populace, especially the majority and to some extent the elite, to weather the storm, as it were.

For this purpose, I have chosen to examine, in some detail, how Islam as definer of Malay ethnicity came to provide the stabilising umbrella of Malay existence in both peaceful and crisis moments, including during economic crisis.

## **THE MANY FACES OF MALAYSIAN ISLAM**

Before European domination, when ‘the church and the state’ were fused into one, Islam played a pivotal role in all aspects of social life in a Malay *kerajaan* (polity) and society. The British arrival separated Islam and the state. Hence the control of Islam and local customs fell into the hands of the *raja* while the secular governance was controlled by the British administration. Since then (c. 1850s) Islam began to be perceived to having three different ‘faces’: ‘cultural-symbolic’, ‘political’ and ‘economic’.

The most prominent was its ‘cultural and symbolic face’, indeed the critical pillar of Malayness. In other words, Islam was ceremonial and ritualistic, important only to Muslims in so far as it involves their intellectual and spiritual life framed within the Malay customs. Islam was for a long time perceived as ‘privately Malay’ and an important social stabiliser, vis-a-vis the Europeans and other non-Malays.

When anti-colonial nationalistic movement appeared in the 1920s and 1930s, Islam showed its ‘political face’. It became a force that was able to unite at least a group of the Malay *ummah*, or community, against colonialism and of course with the intent of bringing it down. The idea of an Islamic state was advanced as an alternative to the secular colonial one. Like their partners within the nationalist movement, namely, the ‘Malay left’ and the ‘aristocrat group’, the ‘Islamic group’ failed to realise the ‘Malay nation’.

For more than three decades (1950-1980), Islam, despite its position as the official religion of Malaysia, remained at the periphery of Malaysian major social institutions; it was ‘cultural and symbolic’ and used as a political platform by an opposition party with limited success.

The ‘economic face’ of Islam rarely made its presence except in the most indirect manner and within the private realm of the daily practice of Malay culture and customs, such as paying *zakat* (alms or wealth tax) and *fitrah*, (personal tax) or giving *sadakah* (donations) or contributing to the *baitul mal* (public treasury). It also appears during wedding rituals in the

form bride wealth and bride price that all bridegrooms have to contribute to legitimise his marriage. The tragedy of death and its ritual is often complicated and saddened by *faraid* battle, the fight amongst siblings for a share of the property of the deceased.

However, all this has undergone a tremendous change since the launching of the NEP, particularly in the 1980s. But it all began in 1969. We shall now take a brief look at the 'economic Islam' and survey the state of contemporary 'political' Islam in Malaysia.

### **The 'Economic Islam'**

Malaysian most eminent economist, Prof. Ungku Abdul Aziz, has often remarked that rural Malay poverty and backwardness is partly related to the small and uneconomic size of agricultural land holdings owned by the Malay peasants fragmented over one or two generations through the *faraid* process demanded by the Syariah laws. In this case, the economic face of Islam is perceived as something negative.

However, all this changed when Prof. Ungku Aziz's brilliant idea was accepted and implemented by the government. He suggested that the government should set up a special national body to organise and facilitate the annual pilgrimage to Mecca, or the *Hajj*, for all Muslims in Malaysia. In 1969, a *Lembaga Urusan Tabung Haji* (LUTH, or Pilgrim's Management and Fund Board) was established. Muslims who have the material means are obliged to go on the Hajj as demanded by the fifth pillar of the Islamic faith. So, the Pilgrim's Board, besides playing the role of a 'hospitality agent' for those going to Mecca, it doubled up as Islamic savings institution. It is the latter role that became significant in carving the path for other Islamic financial institutions to emerge about 15 years later hence the publicly profiled Islamic 'economic face'.

The Pilgrim's Board's unexpected economic success enhanced not only Malay economic capability but also the economic face of Islamic, hence Malayness. Its success was perceived as the success of a Malay-cum-Islamic financial institution thus providing the average pilgrim with a stake in the national economy. By 1990, nearly half a million Malaysians have gone to Mecca organised and facilitated by the Board, but its total membership then was much larger, easily three times that. It meant that nearly 60 per cent of the economically active Malay Muslims in Malaysia was saving with the Pilgrim's Board. Indeed an impressive figure.

However, the big push for Islamization in Malaysia, as indicated previously, took place in the 1980s. The institutionalisation of Islam, particularly at the national and federal levels, ultimately laid down the groundwork for Islam's intensified role in public life. Much

of the State's programmes of Islamization was aimed towards the defence and promotion of the religion suited to the established national goal of economic modernization. A series of institutional initiatives within the Islamization process was supportive of this strategy, such as the Islamic Teachers College (1982), the Islamic International University (1983), the Islamic Development Foundation (1984), the Islamic Insurance Company (Takaful) (1985).

However, the most important of them all was the setting up of an Islamic Bank, or Bank Islam Malaysia Berhad (BIMB), through the introduction of the Islamic Banking Act of 1983. It was established on 11 March 1983 with an initial paid-up capital of RM80 million (equivalent to US\$32 million at the exchange rate US\$1=RM2.5 then) and the authorised capital of RM500 million (then US\$200 million). The federal government, through the Ministry of Finance, various federal agencies and the Pilgrim's Board contributed 65 per cent of the paid-up capital. The rest came from the various *negeri* or provinces. By 1991, the total paid-up capital of BIMB increased from RM80 million to RM133.4 million.

The significance of this whole activity is that despite its 'minor' position vis-a-vis matters relating to Islam and Malay custom the federal government remains the controller and the manager of and the 'innovator' within the national economy. It is in that capacity that it took the initiative to set up Bank Islam and other economic-related Islamic institutions (eg. money market, insurance companies, pawnshops, real estate properties, etc.). In fact, in March 1993 the federal government launched an Interest-Free Banking Scheme (IFBS) for the whole country that involved local banks and other financial institutions who were interested in doing business the 'Islamic way'. The introduction of this scheme marked the taking-off of Islamic banking concepts in Malaysia and paved the way for a dual-banking system, Islamic and the conventional one running parallel.

Undoubtedly, it is the federal government that paved the way for the 'mainstreaming' of Islam into the Malaysian economy, strongly supporting it all the way. Indeed, in 1998, at the height of the economic crisis, when there was a massive regrouping of Malaysian commercial banks meant to reduce its number to less than ten, the Central Bank endorsed the setting up of a second Islamic-oriented bank called Bank Bumi Muamalat Malaysia.

Besides setting up an Islamic banking system alongside the conventional one, we must also note that the federal government, using the IFBS concept, created a special trust fund to give interest free loan to the hard-core poor (defined as those earning less than RM350 per month, which is equivalent to about US\$90 at the present exchange rate of RM\$3.80 for per US dollar. Amanah Ikhtiar Malaysia (AIM), a Malaysian NGO, together with a number of

Malaysian banks, including BIMB, successfully implemented this interest-free loan pool for the poor, modelled on the scheme of Grameen Bank of Bangladesh.

The IFBS was then slowly making in-roads into and made available to small and medium Malay businesses, mostly in the rural areas involved in farming-related activities and the fishing industry. Both BIMB and other financial institutions which adopted the IFBS made available more than RM10 million at the initial stage.

Bank Islam and its 'brother' banks across the Islamic countries were also involved in an international attempt to venture into 'development banking', which simply means supplying capital for large infra-structural projects run by semi-government agencies or the governments of the OIC.

What I have just briefly outlined has been the nature and extent of the activities of Bank Islam in Malaysia and other financial institutions which have adopted the Islamic banking method. Admittedly, not all the Malay Muslim in Malaysia hold bank accounts either in Bank Islam or the other financial institutions practising IFBS. Equally, these institutions don't only serve Muslims but also non-Muslims. In 1995, it was reported that nearly 40 % of the General Investment Accounts holders in Bank Islam were non-Muslims. This is not surprising when the clients could take home as much as 70% of the profit from the investment rather than drawing a fixed sum based, say of 5% p.a., according to an agreed interest rate.

That this alternative economic/banking system has now operated for more than 15 years successfully in Malaysia, alongside the conventional one, it is not surprising therefore to observe that it has blended into the everyday life of Malaysians, or become 'normalised' as it were. Thus it is not perceived as an alternative system anymore, instead considered as a part of the accepted system.

Islam and Muslims may still be perceived with suspicion by some sections of the non-Muslim Malaysians but not the Islamic financial institutions. The Islamic financial institutions may have invited stereotypes and suspicion at the early stage but not anymore.

### **The 'Political Islam'**

Malaysia's 'political Islam', past and present, is not only about the contest over both the interpretation of symbols and control of institutions that produce and sustain them but also about the social organisation of cultural-ethnic distinctiveness. This has been mainly the product of colonialism. It was later consolidated with the launching of the modernization project, soon after the Second World War, by the British, with the support of the US. It was through the institution of modern electoral politics, introduced by the British as an integral

component of its modernization project, that Malaysia's political Islam, since 1946, found its most significant platform, in both UMNO and Partai Islam. That open political participation has been allowed, Islamist involvement in Malaysian politics has not only helped consolidate democratic practice but seems to also to have had quite the opposite effect from what the proponents of Islam's hostility to democracy suggest. The realities of political life produce pragmatists, they say, and being part of the democratic game has in fact 'democratized' Islam in Malaysia.

What is more significant is the fact that participation has not only forced Islamists to play the democratic rules, it has also encouraged them to look deeper into Islam to discover the authentically democratic spirit and tenets within it and to thus focus on them. For instance, Partai Islam's participation in Malaysian democracy has given the party a period of habituation and experience to increasingly accept the realities of pluralistic politics. However, the most progressive political role that Malaysian Islamists have played thus far is the one by the group of Muslim student leaders of the early 1970s, who formed ABIM (the Malay acronym for the Malaysian Islamic Youth Movement), led by Anwar Ibrahim.

I have suggested elsewhere that besides the 'old' and established communal politics that has characterized Malaysian politics in general, there is now, however, a 'new' one based on a variety of interest-orientations, including class and ethnicity. Admittedly, its origin could be traced to a set of broader global circumstances, involving all ethnic groups and classes in Malaysia, and somewhat internationalist in orientation. However, it is the one that has emerged from amongst the Malays that became the catalyst. It began in earnest as the NEP was launched.

I'm arguing that it was ABIM that triggered the catalyst. When the Malay-Islamic oppositional space vacated by Partai Islam was filled by ABIM, as a result of Partai Islam joining the National Front coalition led by UMNO in 1973, Anwar Ibrahim and friends were given the opportunity to spearhead a nascent movement demanding Islamization and democratization, long before "democratization and civil society" became a popular global concern and buzzword that spawned its own knowledge industry. As a participant observer then and a non-participant observer now, perhaps I could narrate what has taken place then and now.

"Islam first, Malay second" has been ABIM's motto since its inception in 1969, a powerful and well-organised group consisting mainly of modernist Malay-Muslim ex-student leaders led by Anwar Ibrahim. It demonstrated its powerful influence amongst the students and youths during the December 1974 student uprising during which the streets of Kuala Lumpur was turned into a 'sea of demonstrators', many times bigger and more violent than

what we have seen live on CNN recently. In fact, thousands of them were arrested and later charged in court for illegal gathering. Anwar Ibrahim, along with other student leaders and some academics, were arrested under the Internal Security Act (ISA) and detained for some years at the Kemunting Detention Camp, Taiping, Perak.

Many analysts and politicians, including Dr. Mahathir Mohamed, who was then the Minister of Education, saw this development and concluded that it was simply 'student politics'. It may be so at the surface and in its outward articulation, but it was certainly more than just that. It was the early beginnings of the new politics in Malaysia, a nascent one, which has some resemblance to the May 1968 in Paris, definitely less grand in scale and its ramifications.

Outside the Malay political realm, but in a quieter mode, NGOs began to mushroom in Malaysia, in the 1970s, representing a variety of interests, ranging from interests in the protection of the consumers, the environment, the urban squatters, the Orang Asli, abused wives and children, to those advocating human rights, social justice, academic freedom, peace issues, legal issues and social welfare concerns.

Around thirty of these different interest groups, consisting of Malays and non-Malays, men and women of different classes, writers, artists and professionals as members, formed an alliance in 1980 with Anwar Ibrahim as the chairperson. A few from this group eventually established a Centre for Peace Initiatives (CENPEACE) with Fan Yew Teng, an ex-DAP (Democratic Action Party) Member of Parliament and human rights activist, as its founding executive director. CENPEACE has been involved in activities related to 'civil society' concerns.

Even though Anwar Ibrahim entered the old mainstream politics when he joined UMNO in 1982, his relationship with the groups within the new politics remained strong. In fact, in the new position he was able to assist these groups, hence the new politics, albeit quietly, to survive and flourish at the fringe of the mainstream politics. Anwar, as a finance minister, was able to indirectly contribute to the strengthening of the financial position of the groups through various means, including tax relief for writers and artists on the royalty they received, allocating funds from the government budget for NGOs, getting international funding agencies, such as the Konrad Adenauer Foundation and Malaysian-based multinational organisations and financial institutions, and the successful Malay entrepreneurs in the corporate world, to make generous donations, and many more of such efforts.

He in fact introduced and promoted, at the national level, the concept of '*masyarakat madani*' (a Muslim version of 'civil society'), arguing that Muslims, as individuals, not unlike

the individual in the western civil society notion, has his/her rights in the eyes of Allah, as documented clearly in the Quran, which must be respected and protected at all cost. He also repeatedly emphasised that the concept and practice of *masyarakat madani* is deeply rooted in the nation of *keadilan sosial*, or social justice. Through CENPEACE and, especially, through an ABIM think-tank called Institut Kajian Dasar (IKD), or the Institute of Policy Studies, both the concepts of *masyarakat madani* and *keadilan sosial* were promoted nationwide in numerous workshops in order to reach a wider audience of all ethnic groups, class, interest-orientation background. At the intellectual level, he encouraged what he called 'inter-civilizational' dialogue, both at the national and international level, such as at the Islam-Confucianism Conference in 1994. In fact, a Centre for Civilizational Dialogue was set up at the University of Malaya in 1995 to serve this intellectual interest with Prof. Chandra Muzaffar, a well-known social activist and the founder of ALIRAN, as its founding professorial director. Anwar, too, published his speeches and writings in a book entitled the *Asian Renaissance* (1996).

So between 1970 and 1997, we saw the rise of the new politics in Malaysia, one that is interest-oriented, largely non-communal and non-class based. Admittedly, it was initiated in the form of a fragmented movement, if it could be characterized as a movement, struggling and pushing to create a political space. It was fragmented because of its 'now-you-see-now-you-don't' character, because it existed at the fringe, because each of the different groups appeared publicly representing different cause and voicing different issues, because we got it mixed up with the opposition political parties, because analytically observers like us were trapped in the 'old politics' mode, looking for ethnicity and class elements, which of course were present but despite that they were not central to the movement.

On September 2, 1998, the movement came alive again, when its leader Anwar Ibrahim left the bandwagon of the old politics: the old politics that have been dominated by powerful institutional bureaucratic and state structures (political parties, the parliament, the police, and so on) and issues related to the modernization project (expensive mega-projects, cronyism and nepotism, bail-outs and many more), one that couldn't care less about environmental issues, gender issues and abused wives (please check the UMNO annual report since 1970, none of these issues was listed in agenda of UMNO General Assembly, not even in Mahathir's speeches), hence the old politics that was motivated by unbridled entrepreneurship greed.

The leaders of the various fragmented groups gathered around their dethroned leader, Anwar Ibrahim, everyday and every night at every opportunity all over the country. They oc-

cupied numerous web pages in the Internet. They rallied and received transnational support, almost from anyone who has a grudge against Mahathir or Malaysia. The voices that we heard for the last eighteen months, through the CNN, the Internet and various other sources were not simply pro-Anwar or anti-Mahathir, it was a voice of the makers of the new politics in Malaysia, a mass politics of dissent, perhaps populist, more interested in creating a space to express discontentment of all kinds rather than winning votes. At this stage, they are not in the fringe anymore, they are in the middle, together with the mainstream, old politics, trying to carve out a permanent niche, in the form of a reform, or *reformasi*, movement. Indeed, *reformasi* is the slogan that unite the fragments, from near and afar, in the Malaysian new politics movement.

In April 1999, part of the *reformasi* movement, led by Dr. Wan Azizah, Anwar Ibrahim's wife, and Dr. Chandra Muzaffar, with a major support from ABIM leadership and members, Parti Keadilan Nasional, or simply known as Keadilan, was established. It led the formation of Barisan Alternatif, or the Alternatif Front, a coalition of opposition parties that performed credibly, at least in terms of votes received, in the last general elections of November 1999.

It could be said that the recent development in Malaysia's politics, especially the rise of the so-called new politics, has political Islam at its core with Anwar Ibrahim providing the leadership mainly by proxy. Although its nature and scope is difficult to predict, a movement in the direction of political reforms could be expected even during the tenureship of Mahathir and, more so, in a post-Mahathir era that is expected to commence in 2005, after the 11<sup>th</sup> Malaysian general elections.

This simply means that there shall be, at a certain level, a convergence between the different competing Muslim groups, namely, UMNO, Partai Islam and Keadilan in the direction of Islamization and democratization which could open up a fresh Muslim discourse to explore a creative and functional synthesis between modernity and Islam in the context of multiethnic Malaysia, which in turn could be widely acceptable to the diverse and pluralistic Malaysian populace. Indeed, there has been serious attempts initiated recently by the national and local leadership of Partai Islam, for example, to understand the non-Muslim Chinese communities through meetings and dialogues to which the Chinese communities has responded favourably. Partai Islam knows that its political future is not dependent solely on the Muslim community support, which by the way is currently heavily fragmented and factionalized.

## CONCLUDING REFLECTIONS

Despite these interesting developments that we observed taking place within the spheres of ‘economic Islam’ as well as ‘political Islam’ in contemporary Malaysia, we however have to locate these in the wider context of Malaysia’s national governance framework which I refer to as a ‘framework of conservative forces’ that involved all Malaysians, Muslim and non-Muslims. Why so, because I still believe that these forces, that came to be institutionalised soon after the war, that is, in the late 1940s, in its present institutionalised form, have become the all-important socio-political grids within which the ‘national’ social life in Malaysia has been conducted, managed and controlled, mostly from the top since 1945. I must also mention that in its early stage, that is, in the early 1950s, we imported a lot of ideas from Sri Lanka in developing this framework. We also exported some aspects of it to the ‘Apartheid’ South Africa, the now extinct government of South Vietnam and to pre-coup government of Fiji, to name a few.

The existence of this framework has enabled Malaysia to deal with authority and effectiveness any major problem or crisis, economic and non-economic, that occurred in the country thus far, either those generated internally or externally-derived. The three central pillars of the framework are as follows:

**‘Security’** was of primary importance because the period immediately after the war rather unstable both in Malaysia and the region. Indeed, in Malaysia, there was racial strife, labour unrest and insurgency. A number of draconian regulations were introduced to maintain ‘law and order’ hence ‘peace and stability’, such as the Internal Security Act (ISA) and the introduction of a ‘pin number’-like system known simply as the ‘identity card’. The whole ‘security’ effort and paraphernalia were built around and anchored in the Emergency of 1948-60. It is significant to note that Malaysia achieved its independence during the Emergency, that is, in 1957. Instead of the military, it was the police force (uniformed and non-uniformed) which was the central instrument in the overall ‘security’ strategy.

**Ethnic bargain’** was critical to maintain some measure of socio-political stability within the multiethnic society. This was conducted mainly through a modern electoral process using an umbrella-like coalition model. We have ethnic-based parties, but from day one the British ensured that the major ethnic parties got together to form a team hence the birth of the UMNO-MCA Alliance party, which was later joined by MIC. The Alliance, and later known as the National Front, has been ruling the country since 1955. This coalition model was also adopted by the opposition political parties, such as by the non-Malay dominated Labour Party

and the Malay-dominated Socialist Party which formed the Socialist Front in the 1960s. Other loosely-organised political party coalitions emerged in the 1980s.

**‘Development planning’**, a kind of planned change or social engineering strategy, not unlike the Marshall Plan, was introduced by the British mainly then for the purpose of economic reconstruction and management of the war-torn Malaysia. It began with the Draft Development Plan, 1950-55. Since then ‘development planning’, through the implementation a series of five-year plans, has become a permanent feature in Malaysia’s attempt to achieve economic development and to create a nation. So we have had nine five-year plans since 1955. The effort to create each of this five-year plans became an important platform for ‘economic bargain’ amongst the different ethnic groups hence the allocation of resources. Most of the five-year plans have been financed by the World Bank and the IMF, plus funds borrowed from other sources.

It is the successful combination of these three important elements that, in no small measure, has helped Malaysia tremendously to achieve what it has achieved thus far in its modernization push, but not without its problems. Of course, there is a long list of these problems, both conceptual and empirical, some of which have been examined in detail by Malaysianists, within and outside Malaysia.

Thus this ‘framework of conservative forces’ has been perceived by the state as necessary in view of the fact that Malaysia is always in ‘the state of stable tension’. The potentiality and possibility of any sort of conflict to develop and escalate to violent ethnic encounters, as witnessed in the past, has been able to be brought under control. However, it is not uncommon for the state to use this framework, or any of the four mentioned elements, to its political advantage and to justify its less than acceptable activities.

However, it must be said that despite the continued domination of the top-down approach the society has managed to resist total domination because it has several spheres that enjoy a measure of autonomy, not really governed by the state-elite or, least of all, by a self-regulating market. This has been amply demonstrated during the recent rise of the ‘new’ politics in Malaysia. The moot question is that could these new political developments and push for democratization shift or reconstitute the so-called “pillars of Malaysia’s modernization” indeed the basis of the said framework of conservative forces which seemed to have held the Malaysian society together for so long.

So, the struggle between state and society continues.

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