

## CHAPTER 3

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# Malaysia's Security Dynamics and Strategic Challenges

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### **Introduction**

2015 has been a relatively peaceful year for Malaysia. There were no untoward major incidences that shook the nation as experienced in 2014 with the loss of 3 passenger planes – Flight 370 (remains lost), Flight 17 and Flight 8501, or in 2013 with the Lahad Datu intrusion or any deadly attacks at home similar to the Erawan Shrine bombing in neighboring Thailand in August or the Paris massacre three months later.

This is not to deny the existence of threats to national security, both from within and without the country. Internally, the Malaysian government faces challenges from home grown Islamic extremists that are either tied to the Islamic State (IS) or IS-related militant groups. Externally, Kuala Lumpur is becoming progressively concerned with China's encroachment into its waters in the South China Sea. This has led to a firmer response in dealing with China's increased assertiveness relating to the disputed territorial claims issue. Then, there is the yearly haze problem from neighboring Indonesia that has posed not only a threat to the environment but justifiably to health and the economy. This year's haze was especially a major concern as it dragged on much longer than previously anticipated.

Compounding security issues were political economic concerns that have forced the government to revise its 2015 budget by cutting RM5.5 bil (USD1.3 bil) in operating expenditure and reducing economic growth target from 5-6% to 4.5-5.5%, and have affected the political stability of the ruling government. Some of the highlights, among others, were the sharp fall in global oil prices, the public discontent with heavy debt-laden state fund 1Malaysia Development Bhd and the free-fall of the Malaysian currency (Ringgit) touching a 17-year low of 4.48 to the dollar in September 2015.

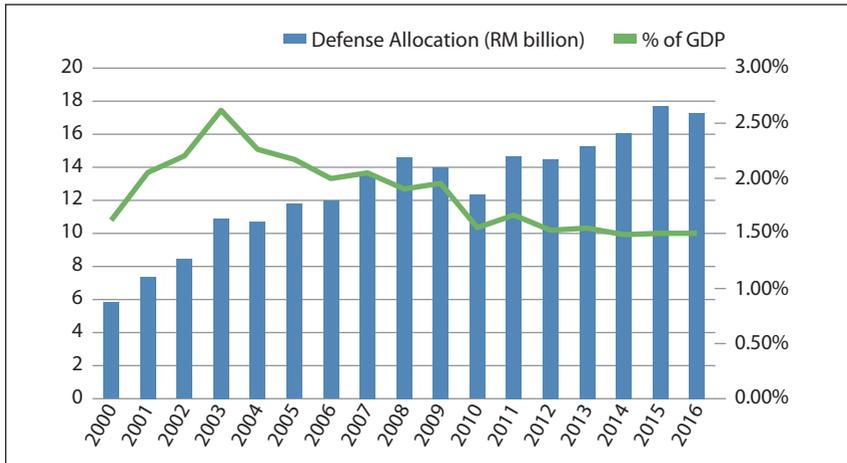
These varied challenges, in addition to being chair of ASEAN and involvement in the negotiation process of the Trans-Pacific Partnership Agreement (TPPA), have kept the government actively engaged. This paper is divided into four main sections.

The first section will provide an overview of the country’s defense allocation and its impact on defense planning. The second section will discuss the problem of terrorism at home, while the third section will specifically look at Malaysia’s relations with China on the South China Sea issue. The fourth section will then discuss the haze problem and prospect for better regional cooperation, before concluding.

### Defense Allocation and Impact on Defense Planning

Malaysia’s defense allocation for the past 16 years has seen an increase of more than threefold in line with its economic development and modernization programs. Defense expenditure as a percentage of GDP increased in the early periods of the 2000s reaching its height at 2.61% in 2003 before tapering off and stabilizing at around 1.5% for the last few years (see Figure 1), reflecting perhaps a sense of stable security outlook whereby the government does not foresee any major external threats that would require an extensive military posture. At 1.5%, it is lower than several ASEAN countries – Myanmar, Singapore, Brunei, Vietnam and Cambodia in descending order and equal to Thailand.<sup>1</sup>

**Figure 1: Malaysia’s Defense Allocation and Percentage of GDP (2000-2016)**



Source: Stockholm International Peace Research Institute (SIPRI) Database (2000-2014 data)

Note: Figures for 2015 and 2016 are an estimate.

<sup>1</sup> For more details, see <http://cogitasia.com/analyzing-southeast-asias-military-expenditures/>.

The budget allocated for the defense sector in 2015 was RM17.763 bil (USD4.23 bil), an increase of 10.3% over 2014, but is projected for a decrease of 2.6% when compared to the 2016 allocation (see Table 1). It is ranked fourth highest in terms of amount after education (RM40.838 bil), treasury general services (RM32.815 bil), health (RM23.311 bil) and the Prime Minister's Department (RM19.060 bil).

**Table 1: Malaysia's Defense Budget in Comparison (2013-2016)**

| Budget Allocation       | RM billion |        |        |        |
|-------------------------|------------|--------|--------|--------|
|                         | 2013       | 2014   | 2015   | 2016   |
| Operating Expenditure   | 11.970     | 13.355 | 14.145 | 13.457 |
| Development Expenditure | 3.281      | 2.745  | 3.618  | 3.847  |
| Total                   | 15.251     | 16.100 | 17.763 | 17.304 |

Source: Budget speeches and news reports (various years)

The chart and table above indicate that the government has not placed a high priority on projecting military might, preferring instead to focus its energy and limited resources on developing several key sectors, primarily the economic sector, education, health, housing and community development in the quest of becoming a developed nation by the year 2020.

The relationship between the defense sector and the budget allocation has been one of constant compromises and struggles. Since more than three quarters of the expenditure is used for operating cost, the provision for defense planning of armed forces is fairly limited, more so when it has to be shared between the army, navy and the air force. Hence, some of the replacement and modernization programs may have to either be postponed or scrapped. This is a significant issue since it could affect the military's capabilities to defend the state especially in a fast changing security environment. This would be the same for any nations. Interviewed by a reporter for *The Star*, a local Malaysian newspaper, the newly appointed Navy Chief Admiral Ahmad Kamarulzaman said that "...we are managing an aging fleet. I must admit many of our ships are over 30 years – considered old by international standard. Yes, we hope to replace them immediately. But we do understand that it will have to be done in phases depending on our financial capabilities but we can't wait too long".<sup>2</sup>

<sup>2</sup> <http://www.thestar.com.my/news/nation/2015/12/27/in-command-of-our-seas-he-may-be-new-at-the-helm-but-admiral-datuk-seri-ahmad-kamarulzaman-ahmad-bad/>.

While the purchase of the 6 stealth frigates known as Second Generation Patrol Vessel or Littoral Combat Ships was mentioned in the 2014 budget speech, it was not until 2015 that the building of the ships started. It will not be until 2018 or 2019 before the first of the six ships goes for sea trial and becomes operational. For the air force, the aging MiG-29N is supposed to be decommissioned in 2015 but may most likely be upgraded instead due to budget limitations. The government, however, has committed to purchase four A400M airlifters, a transport aircraft that is capable of carrying troops and supplies and is highly suitable for Humanitarian Aid and Disaster Relief (HADR) missions.<sup>3</sup>

This will bode well for Malaysia's role in non-traditional security under the ASEAN umbrella.

The Lahad Datu incident has seen defense spending channeled into developing defenses to plug the porous borders in eastern Sabah. Malaysia, reminds Ahmad Kamarulzaman, is "...primarily a maritime nation. The East Coast of Sabah alone covers a shoreline of about 1,600 km. That is three times the length of PLUS Highway from Johor Bahru to Bukit Kayu Hitam". Apart from a planned new naval base in Bintulu, the government has allocated RM230 mil to modify an oil rig and an auxiliary vessel as Sea Basing in the Eastern Sabah Safety Zone (ESSZONE) waters to cut down response time in case of an incident at sea and to serve as deterrence to potential perpetrators.<sup>4</sup>

Another approach to lessen the effects of a budget constraint in new acquisitions is to maintain a strong engagement with neighboring countries and major powers through intelligence sharing, networking and closer military cooperation. Malaysia carried out a naval exercise with the US in Sandakan, Sabah in August 2015 and held its first ever joint military exercise with China in the Straits of Malacca a month later.

Malaysia has also been active in developing its national defense industry by building a technology park called the Malaysian Defense and Security Technology Park (MDSTP) in Sungkai, Perak to house defense and security companies in line with Malaysia's defense policy of encouraging sophisticated defense technology transfer

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<sup>3</sup> One A400M has been delivered in March 2015 while the second one scheduled for the end of 2015 has been delayed to 2016. The third and fourth delivery will likely be in late 2016 and 2017.

<sup>4</sup> The two sea bases are called Tun Sharifah Rodziah (a converted mobile offshore production unit) and Tun Azizan (a converted container ship).

and developing a robust local defense industry. Since technology affects how wars are fought, state-of-the-art weaponry plays a crucial role. The MDSTP could reduce cost and over reliance of overseas purchases in the long term.

## **Managing Terrorist Activities at Home**

At the 6<sup>th</sup> Xiangshan Forum in October 2015, Malaysia's Defense Minister Hishammuddin Tun Hussein highlighted terrorism as one of five key challenges facing states in the region. Noting that IS's activities "have a hypnotic effect on young Muslims", he mentioned that "IS exploits the fault lines that are created by religion, by race, and socio-economic differences. Like a deadly predator, it preys on the most vulnerable, including the disenfranchised and the disaffected".<sup>5</sup>

In Malaysia, a total of about 100, perhaps disenchanted, individuals have gone to the Middle East in the hope of joining IS and 6 have reportedly died as suicide bombers.<sup>6</sup> Another 40 Malaysians that returned home were arrested and detained.<sup>7</sup> Many of them are thought to be lonely single men or women who sympathized with the cause of IS and are either willing to bear arms to fight beside their brethren or become comfort women. Yet recent reports have indicated a change in trends. No longer just singles but whole families are willing to give up their lives in Malaysia to migrate to Syria in order to "live under an Islamic nation lead by a caliph" simply because Malaysia is not Islamic enough for them.<sup>8</sup>

This trend may well signal that the "hypnotic effect" is not merely weighing on the lower strata of Malaysian society but even the middle and upper classes. A more worrisome fact is that at least 70 military personnel from the Malaysian armed forces have been reported to have ties with IS.<sup>9</sup> As trained soldiers, they can be an asset to the IS and become a serious threat to national security. While the emigration of believers fuels the cause of IS and poses a continuous dilemma for the international community, what concerns the government the most is what these believers intend

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<sup>5</sup> <http://www.xiangshanforum.cn/artsix/sixforum/speech/first/201510/1224.html>.

<sup>6</sup> Some reports have indicated a higher figure of about 200 individuals. Actual figures remain unknown.

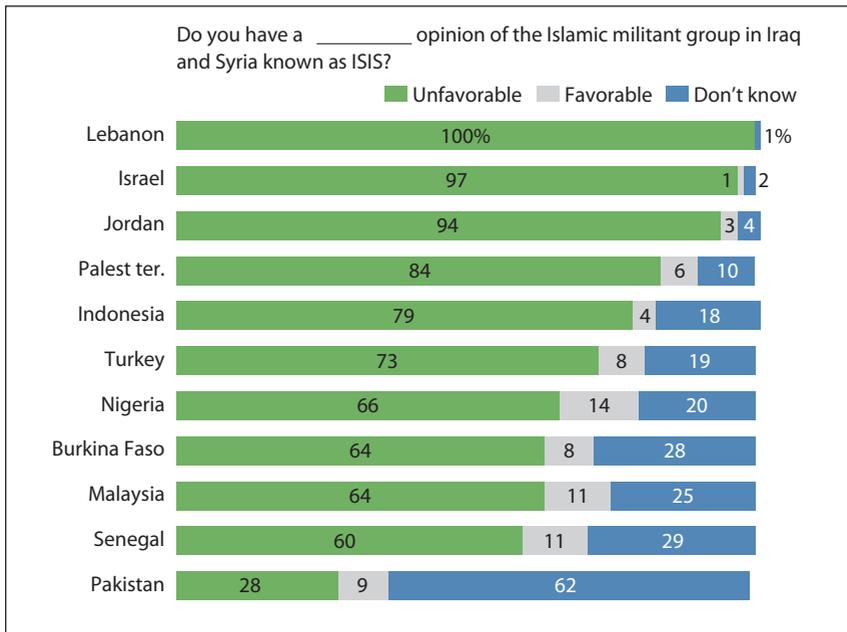
<sup>7</sup> <http://www.themalaysianinsider.com/malaysia/article/malaysians-join-isis-but-end-up-cleaning-toilets-says-deputy-minister>.

<sup>8</sup> <http://www.themalaysianinsider.com/malaysia/article/families-fleeing-to-join-isis-because-malaysia-not-islamic-enough-says-top>.

<sup>9</sup> <http://www.ibtimes.com/malaysia-army-isis-70-soldiers-have-joined-islamic-state-officials-say-1879299>.

to do with their newfound knowledge and experience when they return home. There have been a number of arrests made against individuals suspected of involvement in the planning of terrorist activities particularly around the capital city area but the crackdown on IS sympathizers by the authorities have yet to break the strong will of hardcore supporters threatening retaliation.

**Figure 2: Views of ISIS Overwhelmingly Negative**



Note: Due to rounding percentages may not total 100%.

Source: Spring 2015 Global Attitudes survey: Q12n.

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Based on police intelligence estimates, a Malaysian minister has claimed that there are at least 50,000 IS supporters in the country.<sup>10</sup> A 2015 survey by the PEW research center shows that while 64% of Malaysians have a negative opinion of IS, there is a significant 11% that views IS favorably, a figure higher than those in Turkey, Indonesia, the Palestinian Territory, Jordan and Lebanon (see Figure 2). The IS

<sup>10</sup> <http://www.aljazeera.com/news/2015/12/malaysia-minister-50000-isil-sympathisers-country-151212151155422.html>.

ideology has crept in and is spreading its roots. Some observers have argued that the question of a major attack is not if but when. It is a cause for concern and efforts need to be stepped up to arrest the situation before it gets out of control.

In April 2015, the Malaysian government passed an anti-terrorism law known as the Prevention of Terrorism Act (POTA) that would provide the authorities with powers to detain terror suspects without trial for two years. A special court to try individuals suspected of terrorism has recently been mooted by the government.<sup>11</sup> However, the updating of security laws alone may be insufficient. As a nation that promotes moderation in Islam, a more assertive stance against IS and any other organizations that use violence and suicide bombings to fight their cause is needed.

Religious teachings in madrasas, sermons in mosques and religious thoughts spread through social media need to be monitored closely as these activities could be seized by “hypnotized” individuals eager to perpetuate radicalism and violence. The likes of Malaysian fighters Ahmad Salman and Mohd Lotfi Ariffin who have used social media to spread their activities and gain huge numbers of followers are a case in point.<sup>12</sup> Thus, the role of Islamic leaders with moderate views and religious non-governmental organizations with messages of respect for other religions should be strongly supported and enhanced.

Externally, Malaysia is beefing up its anti-terrorism efforts by working in concert with Islamic and non-Islamic countries. In October 2015, the government has signed a Homeland Security Presidential Directive No 6 (HSPD-6) that would allow Malaysia to exchange information on terrorists and suspected terrorists directly with the US and be less dependent on Interpol. With US support, Malaysia will also be setting up a Regional Digital Counter-Messaging Communications Centre to counter IS ideology online. Kuala Lumpur has also welcomed Saudi Arabia's recent initiative to set up an Islamic military alliance of 34 countries to combat IS but made clear that it will not be making any contributions in the form of military forces.

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<sup>11</sup> While trying suspects in a court will make the judicial process more transparent, it remains unclear why a separate court is needed instead of the existing ones.

<sup>12</sup> <http://www.bbc.com/news/world-asia-28755907>.

## **Sino-Malaysian Relations on the South China Sea Issue**

Malaysia's relation with China on the South China Sea (SCS) issue has been based on pragmatism. This pragmatism is driven by several factors. Malaysia prioritizes the economy over security in its relations with China. This is not to imply that Kuala Lumpur will allow Beijing to trample on its territorial sovereignty. It does imply that it will have a greater level of tolerance over its other fellow ASEANists primarily Vietnam and the Philippines. This tolerance is encouraged by geography since the disputed islands are situated relatively much further away in the South of China's 9-dash line. China's assertiveness in terms of land reclamation and the building of civil and military outposts including a 3,000 meter long airstrip have largely centered on the disputed islands and reefs closer to Vietnam and the Philippines. Furthermore, Malaysia and China are thought to enjoy a 'special bond' as some scholars have argued, referring to Malaysia being the first country in Southeast Asia to establish diplomatic relations with mainland China and the high intensity of trade and investment between the two nations at present.

Militarily, Malaysia is aware that it does not have the capability to effectively respond to China's assertiveness. The Lahad Datu intrusion provides a good indication that it lacks the capacity to protect its borders from neighboring insurgents, let alone a major power like China who has designated the SCS as its core interest. There are serious weaknesses in its strategic defense that needs to be beefed up. Hence, the proposed Bintulu base, the two sea bases and procurement of enhanced Littoral Combat Ships are aimed at strengthening its defenses in order to protect its natural resources and territorial waters apart from being able to respond quicker to foreign invasions. These steps, arguably, would not be enough to match Chinese power but they are necessary to plug glaring loopholes towards securing its borders. Furthermore, Malaysia's 1,368 meter long airstrip on Swallow Reef, the second longest after China's on Fiery Cross Reef, will serve the country well as it could be used to land its Sukhoi Su-30MKM, C-130 Hercules or the latest A400M airlifter in times of need.

Based on the factors discussed, therefore, quiet diplomacy has become a preferred choice in Sino-Malaysian security relations that some of the other claimants may not have the luxury of. Regionally, however, Malaysia has been a strong proponent of the Code of Conduct (COC). At the 6<sup>th</sup> Xiangshan Forum, Hishammuddin once again reiterated that the COC remains "the best way to govern the competing claims

to the waters” and “will be the key instrument in ensuring the proper management of these vital sea-lanes and open skies”. It was perhaps to signal to China Malaysia’s commitment to multilateral diplomacy and to urge Beijing to stop its foot dragging in developing a joint COC, which has unfortunately remained at an impasse ever since the Declaration on the Conduct of Parties in the South China Sea (DOC) was signed in 2002. Underscoring bilateralism, the COC remains a low priority for China. As a consolation prize, ASEAN and China senior officials managed to agree to the setting up of a foreign ministers’ hotline to tackle any untoward incidences in the SCS at the 9<sup>th</sup> Senior Officials’ meeting on the DOC in Tianjin in July 2015.

Malaysia, together with other ASEAN claimants, has been emphasizing the importance of international law and norms as a way to counter China’s assertiveness and more importantly to gain the support of global powers like the US and Japan who are committed to the freedom of navigation and overflight in the SCS. An unprecedented joint statement between India and Japan in December 2015 calling for all countries to “avoid unilateral actions that could lead to tensions” in the SCS is thus viewed positively as a reaffirmation of support for the freedom of the seas and indirectly of the COC. Japan views the SCS dispute as an international issue and China’s land reclamation endeavors as a major concern.

Malaysia is cognizant that its quiet diplomacy approach alone is insufficient, more so when it was reported in June 2015 that a Chinese coast guard vessel has been anchored at Luconia Shoals (about 150 km from the coast of Sarawak) for the past two years. This came after 3 Chinese ships were detected at James Shoal in January 2014 and a satellite image of an unreported 4,000 ton Chinese vessel near Luconia Breakers was taken in February 2015.<sup>13</sup> The fact that an intruder has managed to set up camp for a prolonged period in an area that Malaysia claims to administer and considers it as outside of the overlapping claims raises questions over its surveillance capabilities and the adequacy of its non-confrontational policy. Alarmed, the government finally broke silence by publicly lodging an official protest with Beijing and ordering its navy and coast guard ships to monitor the area. Although a much firmer step than before, it stopped short of issuing any strongly-worded public condemnations or summoning the Chinese ambassador in Malaysia to register its displeasure.

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<sup>13</sup> <http://www.theasanforum.org/malaysias-special-relationship-with-china-and-the-south-china-sea-not-so-special-anymore/#30>.

Treading cautiously, Malaysia has been enhancing its strategic relations with the US. Defense cooperation in 2015 saw a series of military events from a rare amphibious air-ground demonstration by the US's 31<sup>st</sup> Marine Expeditionary Unit in February to a bilateral naval exercise under Cooperation Afloat Readiness and Training (CARAT) in August and another Malaysia-US Amphibious Exercise (MALUS AMPHEX 15) in November; all in line with Malaysia's interest to strengthen its maritime security by establishing a marine corps unit through close collaborations with the US.

Observably, US's role remains pivotal over ASEAN's in curbing China's assertiveness. While the US's commitment to the SCS issue is clear, consensus in ASEAN has remained an issue since not all members are involved in the dispute, making a strong collective stance from the ten countries nearly impossible. This unfortunately works to China's advantage. Hence, Malaysia will likely continue to see the role of major powers (US, Japan and India) as necessary to balance against China, while working through multilateral platforms including ASEAN and informal channels to push for some respite if not an amicable solution.

### **The Haze Problem and Future Regional Cooperation**

The transboundary haze pollution from Indonesia's forest fires has been a grave concern for neighboring countries like Brunei, Malaysia and Singapore and to a lesser extent the Philippines and Thailand for many decades. The haze situation in Malaysia in 2015 was worse than the previous year with thick smog reducing visibility drastically and with each episode lasting over a longer period. According to a Dutch researcher, 2015's fire emissions have reached a level whereby they "have caused Indonesia to surpass Japan as the world's fifth biggest polluter".<sup>14</sup>

The Malaysian branch of the World Wide Fund for Nature (WWF) has warned of the long-term impacts of the haze to the ecosystem where the harmful levels of nitric and sulfuric acids in acid rain would pollute the soils and waters, "which in turn affects the food chain for wildlife and influences animal health and behavior". The haze issue is not merely an environmental security concern. It is equally a health as well as an economic matter due to its adverse effects on the lives of the people in the region, from Indonesians living close to the hotspots to the Southern Thais

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<sup>14</sup> <http://www.economist.com/blogs/graphicdetail/2015/11/daily-chart-3>.

further away. Schools and businesses in several parts of Malaysia had to be shut down periodically with local authorities issuing notices advising people to stay indoors. With more people suffering respiratory illness and falling sick, it puts an unnecessary strain on the cost of healthcare. Flights had to be cancelled or postponed and the local tourism industry was not spared either. The haze has affected domestic tourism and is considered to be a contributing factor to the drop of 12% year-on-year in tourist arrivals to Malaysia. These disruptions undeniably pose a dangerous threat to human security.

Lax enforcement of laws, weak regulations, corruption and incompetence have been highlighted as factors contributing to the unresolved haze problem. The Indonesian government, which has often received flak for its poor handling of the haze crisis, has stepped up its actions in recent months to bring the problem under control by revoking land licenses, issuing stop work orders and taking some of the defiant companies to court. In September 2015, a Malaysian company Adei Plantation (a subsidiary of Kuala Lumpur Kepong) and one of its managers were found guilty by a Riau district court while another palm oil company PT Kallista Alam failed in its appeal to the Supreme Court and was ordered to pay a heavy penalty of 366 bil rupiah. Nevertheless, punishing those responsible remains a challenge. A civil lawsuit filed by the Indonesian Environment Ministry against pulp plantation company Bumi Mekar Hijau saw the Palembang District Court rule in favor of the latter in December 2015.

Following Singapore's footsteps, Malaysia is considering drafting a new law on transboundary haze that could prosecute local or foreign companies found to have caused haze pollution in the country. Obviously, this, if introduced, cannot be effective without the cooperation and engagement from its Indonesian counterpart. Indonesia's commitment is paramount, but so is Malaysia's and Singapore's because a trilateral or regional approach remains the best method to resolve the haze problem considering the magnitude and complexity of the issue. It will certainly be more effective in containing the fires and charging those responsible in court if there is a strong synergy between the affected parties. This is where the 2002 ASEAN Agreement on Transboundary Haze, successfully ratified by all ten countries, could provide the framework for cooperation as signatories are obliged to share information and implement measures in preventing haze pollution. Affected countries could then develop a blueprint that would map out how cooperation can be further enhanced.

In concluding, the security challenges facing Malaysia are multifaceted covering traditional and non-traditional concerns. These challenges, though they vary in degree of complications, have not compelled the government to substantially increase its defense expenditure in 2015 perhaps due in part to the government's perceived stable security outlook. The reduction in defense allocation for 2016 due to slower economic growth will see the introduction of prudent spending measures particularly in the area of operating expenditure and new programs shelved for the time being. Closer military cooperation on maritime security and a closer watch on developments in the SCS would probably remain the main focus of the armed forces. However, it would not be surprising if Malaysia's mounting challenges such as terrorism come from within.