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Central Intelligence Agency



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**DIRECTORATE OF INTELLIGENCE**

10 June 1985

Malaysian Chinese Politics in Disarray:  
Trouble for Mahathir

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Summary

An agreement reached in mid-May ends--at least temporarily--a bitter leadership crisis in the Malaysian Chinese Association (MCA), the top Chinese party in the National Front which is Prime Minister Mahathir's governing coalition. Factional infighting seems certain to continue, however, and will delay national elections which we believe Mahathir originally planned to call early next year. The MCA must hold its long-delayed party elections first and Mahathir will have to allow time for wounds from the party infighting to heal. In our judgment, this will push back a national election until at least the latter half of 1986.

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Crisis in the MCA

The struggle for leadership of the Malaysian Chinese Association (MCA) began over a year ago when the party's acting President Neo Yee Pan expelled his rival, Vice President Tan Koon Swan, and 13 of Tan's supporters. The expulsions came after the embarrassing revelation that Neo had been padding the party's membership rolls in order to secure his victory in the upcoming party elections. The battle went to the courts as Tan's supporters sued the party to readmit them and institute reforms. Although both factions sought his backing, Prime Minister Mahathir steadfastly refused to take sides and instead, after the crisis had dragged on for 10 months, brokered a compromise. This soon fell apart, however, when Tan learned of Neo's continued manipulation of the voter rolls, according to the US Embassy. [redacted]

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We believe renewed pressure from high government officials resulted in a new agreement last month to end the crisis by creating an ad hoc committee chaired by the National Front Secretary General empowered to rectify the party's membership roster and supervise party elections. In contrast to the first agreement, it gives Tan the option of directly contesting Neo for the post of party president. Before holding the national party election, however, both sides must agree on a membership list and branch and divisional elections must be held. In late May, the committee appointed an international accounting firm to help in the membership verification process. [redacted]

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[redacted] party elections will probably not be held before October. [redacted]

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The Political Fallout

The dispute, we believe, has delayed Mahathir's plan for an early national election. According to the US Embassy, Mahathir wanted to call elections no later than April 1986, a year before he must dissolve Parliament and turn to the voters for a new five-year mandate. The Prime Minister, however, will almost certainly defer elections until the MCA's political wounds are healed and he is reasonably certain the MCA can deliver its vote. Even if MCA party elections are held sometime this fall, the party will probably need at least a year to reorganize and unify itself, thereby pushing a national election to sometime after mid-1986 or early 1987. [redacted]

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But we believe problems in the MCA make the National Front increasingly less attractive to the Chinese. The bitter infighting, the worst in the MCA's 35-year history, has tarnished its image as the top Chinese party. The inability of the MCA to resolve the dispute on its own has added to the political disaffection of many bright young Chinese, who already see little future in politics because of the circumscribed political role of

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[redacted]

the Chinese in Malaysia, according to the US Embassy. The squabble also comes at a time when the Chinese community is disgruntled with the Mahathir administration's mishandling of several issues, particularly the "Bukit Cina"\* controversy, in which the government sought to develop land where a Chinese cemetery is located. The Chinese are also concerned that the government may put more economic restrictions on them in an attempt to meet the targets of the pro-Malay New Economic Policy by the 1990 deadline. [redacted]

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Meanwhile, several other members of the National Front face growing challenges so that the 11-party coalition can ill afford to lose the support of the Chinese community. Mahathir's United Malays National Organization (UMNO) party has over the past year become embroiled in a confrontation with the opposition Islamic party, Parti Islam Sa-Malaysia (PAS), UMNO's only serious competition for the Malay vote. In addition, the coalition's Berjaya Party, which governed Malaysia's Sabah state for the past nine years, was trounced in state elections in April by a recently formed opposition party. The upset victory by the Christian and ethnic Chinese-based party reflects badly on Mahathir, who campaigned heavily for Berjaya. [redacted]

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#### Hazards Ahead

It is by no means certain that the latest agreement signals an end to the MCA crisis. Even if the agreement holds, a showdown between Neo and Tan in the party's presidential campaign could factionalize the party further and, we believe, all but end prospects for party unity. [redacted]

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[redacted] Neo, moreover, will fight hard to prevent Tan, who reportedly has the support of a majority of the MCA rank and file, from getting control of the party machinery because he has more to lose than Tan. If Neo loses the MCA presidency, the former university professor would almost certainly lose his minister's post in the Mahathir Cabinet and would probably be finished politically.\*\* [redacted]

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A permanent split in the MCA would be particularly troublesome for Mahathir because an MCA failure to deliver the

\* "Bukit Cina"--literally China Hill and reportedly the location of the largest Chinese cemetery outside China--is located in the heart of Malacca. Kuala Lumpur eventually backed down on its development plan under heated protest from the Chinese community. [redacted]

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\*\* On the other hand, Tan is a successful businessman and throughout the crisis has retained his position as Managing Director of Multi-Purpose Holdings, the MCA's investment arm. [redacted]

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[REDACTED]

Chinese vote to UMNO in Malay-dominated constituencies would probably improve the electoral performance of PAS, thereby reducing the Front's two-thirds majority in Parliament. We believe a swing of votes away from the MCA would also benefit the Chinese-based opposition party, the Democratic Action Party (DAP), which has 10 seats in Parliament. [REDACTED]

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We believe that Mahathir is concerned enough about the potential growth of PAS that he may be willing to intervene personally if the MCA squabbling resumes. Mahathir would most likely back the Tan faction, primarily because of Tan's proven ability in the past to deliver the Chinese vote. The US Embassy reports that Tan supplied the Chinese vote in a byelection last January that resulted in a large UMNO win over PAS. Nevertheless, such action would carry the risk that Mahathir's political image would be damaged by the charge he interfered in the internal politics of the Chinese. The DAP, which is the government's most vocal critic, would almost certainly use this to criticize Mahathir and his administration. In any event, while the MCA crisis sorts itself out, Mahathir hopes to bolster the National Front's appeal to Chinese voters with his first trip to China in November--a tactic used successfully by former Prime Minister Razak in his 1974 election campaign. [REDACTED]

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**Appendix A**A Chronology of Crisis in the MCA

March 1983 -- President Lee San Choon resigns, naming Neo Yee Pan to replace him. Vice President Tan Koon Swan, who thought the position should have been his, begins to gather support to challenge Neo in the party elections scheduled for July 1984. [redacted]

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January 1984 - The rivalry between Neo and Tan escalates, culminating in reports that Neo padded election rolls with up to 100,000 "phantom" members. Neo resists calls to investigate this as Tan's faction petitions for an Extraordinary General Meeting (EGM) to look into the matter. [redacted]

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March 1984 - Neo expels Tan and 13 others from the party. Two Deputy Ministers are forced to resign. [redacted]

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6 May 1985 - Tan's camp holds an EGM in which 60 percent of the MCA's delegates call for:

- Reinstatement of the 14 expelled members
- Removal of "phantom" members
- Amendment to the MCA constitution to prevent future arbitrary expulsions
- Free MCA elections in which any member can contest any post. [redacted]

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May 1984 - After Neo rejects the proposals, Tan's faction sues the party to force acceptance of the EGM resolutions and stop party elections. [redacted]

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19 May 1984 - Elections scheduled for July are frozen by court order. [redacted]

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July 1984 - At Prime Minister Mahathir's behest, National Front Secretary General (and UMNO Vice President) Ghafar Baba begins mediation effort between opposing factions. This effort stalls and starts over the following months, largely due to Neo's uncompromising stance. [redacted]

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15 December 1984 - Acting Prime Minister Musa Hitam advises the MCA to get its house in order or pull out of the National Front coalition. [redacted]

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21 December 1984 - Mahathir returns from abroad and negotiations begin anew. [redacted]

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[Redacted]

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30 January 1985 - Compromise agreement signed in Kuala Lumpur. The nine-point agreement includes the provision to hold party elections before 31 May 1985 and commits both sides to support a consensus slate of candidates headed by Neo and including Tan as a vice-presidential candidate. In addition, the withdrawal of all court cases is stipulated on the agreement by both factions on the party's membership rolls. [Redacted]

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February 1985 - Following review of party rolls, Tan faction drops lawsuit. [Redacted]

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[Redacted] 21 March 1985 - Mahathir reappoints two deputy ministers. [Redacted]

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April 1985 - Tan faction accuses Neo of deleting Tan's supporters from the party membership lists and obtains new court injunctions to stop branch elections. Compromise agreement unravels. Tan calls for a new EGM, set for 12 May. [Redacted]

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10 May - The two sides work out a new pact wherein all disputes are to be referred to a newly formed ad hoc committee chaired by Ghafar Baba and including three representatives from each faction. [Redacted]

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12 May - Tan's EGM held and new ad hoc committee proposal endorsed. [Redacted]

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27 May - Ad hoc committee appoints the international accounting firm of Peat, Marwick, Mitchell and Company to assist the committee in determining which MCA members had paid membership fees through 31 December 1983. [Redacted]

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[Redacted]

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**Appendix B**The Chinese Political Dilemma

The Chinese political voice in Malaysia, which has traditionally been muted, declined further after serious race riots in 1969. Since then, UMNO has had a stranglehold on politics, made easier by divisiveness within the Chinese community which prevents it from forming a united Chinese-based party with which to counter the monolithic Malay voice in UMNO.

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The MCA, the largest Chinese-based party with 350,000 members, represents--at least in form--the Chinese community in Malaysia. In reality, however, the party does not have a convincing mandate, according to the US Embassy. Many Chinese question the MCA's ability to represent Chinese interests when it is pressured by UMNO to deliver the Chinese vote. Also decreasing the effectiveness of the MCA is its constant tendency to fracture into bickering factions. As evidence of its low standing among the UMNO leadership, the party got no Cabinet plums despite the MCA's credible showing in the 1982 general election, and in fact has held no major Cabinet portfolio since 1976.

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The other Chinese-based parties have even less clout.

- Democratic Action Party: the largest Chinese opposition party whose president, Lim Kit Siang, is leader of the opposition in Parliament. The party's appeal, however, is limited to poor and underprivileged Chinese, mainly in depressed urban areas.
- Gerakan Rakyat Malaysia: controls the state of Penang, where US multinationals cluster, but has little political influence elsewhere and has been plagued with perennial factionalism. According to the US Embassy, moreover, Gerakan's claim to the Penang chief ministership may be subject to pressure from UMNO, which already outnumbers Gerakan in the gerrymandered state assembly.
- Sarawak United People's Party: a member of the coalition in the state of Sarawak, has practically no impact at the national level.

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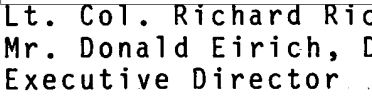


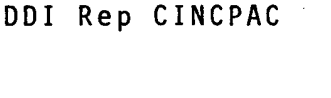
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