

Najib Dissolves Parliament – Malaysia's 14th General Election

April 6th, 2018



EXECUTIVE SUMMARY

Around noon today, Prime Minister Najib announced the dissolution of Malaysia's Parliament, effective tomorrow, paving the way for the 14th General Election. The election date is expected to be announced within a week.

Vriens & Partners expects that the ruling Barisan Nasional (BN) coalition will retain power, due to expected multi-cornered contests – the Pan Malaysia Islamic party, PAS, is contesting independent of the main opposition alliance Pakatan Harapan – and the recent redrawing of the electoral boundaries. BN narrowly won the last General Election in 2013 due to imbalances in voter distribution and the inability of the opposition to win the support of the majority ethnic Malays.

The impact of the General Election on the government's policies will depend on the ruling coalition's final seat count in the Federal Parliament. Winning the new mandate with a higher seat count will give Najib more flexibility to set his government's agenda. On the other hand, winning the government with smaller margin may force Najib to accommodate demands by the Islamist party PAS. That all said, the General Election is unlikely to lead to major changes in the trade and economic policies.

THE ELECTION PROCESS AND THE MAJOR PLAYERS

Within the next 60 days, Malaysians will elect 222 members of Parliament, along with their respective representatives in the 12 state assemblies. The winning party or coalition of parties needs at least 112 seats. Under Malaysia's Parliamentary democracy system, total national vote count is irrelevant to seat distribution. Prior to the dissolution of Parliament, the ruling coalition held 132 of the Federal seats and nine of the 12 states.

For the first time in decades, BN is facing an opposition coalition with credible Malay representation led by influential former Prime Minister Mahathir Mohamad. Mahathir, 93, was the Prime Minister for 22 years until he stepped down in 2003. Mahathir resigned from UMNO, the leading party in the ruling coalition, in 2016 following his failure to unseat Najib.

Mahathir launched a campaign to oust Najib in 2014 alleging that the Prime Minister had misappropriated public funds through the state investment arm, the 1Malaysia Development Berhad (1MDB). Following his departure from UMNO, Mahathir formed his own Malay party, Bersatu, to join forces with three other opposition parties - the Chinese dominated Democratic Action Party (DAP), the People's Justice Party (PKR) founded by Anwar Ibrahim, and a self-proclaimed progressive Islamic party, Amanah. Mahathir and his party were immediately welcomed by other opposition leaders, and in January 2018 was named the coalition's Prime Minister candidate.

Despite having a credible Malay leadership, PH will find it extremely challenging to make inroads into Malay majority constituencies for two reasons. Firstly, the opposition has no access to the Federal government machinery that have till now been helpful in supporting the ruling coalition's campaign. Secondly, PH will also be competing with a smaller opposition coalition led by the Islamist party, PAS. PAS has been in control of the East Coast state of Kelantan since 1990 and remains popular with the Malay-Muslim communities in some of the newly-established townships in the West Coast. In past

elections, multi-cornered contests between opposition parties against BN split the opposition votes and benefited BN. It is also unlikely that PH will benefit from the corruption allegations against Najib. His domestically popular policies like improving the public transport networks and direct cash transfers to lower income group will likely overshadow the persistent corruption allegations against his administration.

LIKELY OUTCOMES

The BN coalition is very likely to win the General Election. As the leader of the coalition, Najib will be sworn in by the King the day after the results are announced, and Cabinet appointments can be expected to be concluded within two weeks.

That said, the new government's policy direction will be determined by the ruling coalition's seat count in the Federal Parliament. If the ruling coalition wins more seats than it held prior to the dissolution, Najib will have more freedom to set his policy agenda. He could potentially resume his liberalization agenda launched in 2009 which included liberalization of the services sector and the capital market. His economic liberalization agenda was put on hold following internal challenges to his leadership after the 2013 General Election.

However, a weaker BN government may see Najib adopting more from the Islamist party PAS's agenda. Under this scenario, the PAS may use its numbers in Parliament to provide stability to the government in exchange for strengthening the Sharia system. Already, Najib has allowed the Islamist party to table its proposed Sharia laws to Parliament for the past 2 years, but it has yet to lead to meaningful debates. The until now symbolic move may turn into a concrete policy proposal if the BN government emerges weaker from the General Election.

In the unlikely event of an opposition win, delays in the swearing in of the Prime Minister and Cabinet appointments are expected, as it is unclear if Mahathir will continue to enjoy the support of the opposition MPs after the General Election. There is also no consensus among opposition parties on the distribution of Ministerial positions. Such delays however are unlikely to cause major disruptions to essential services as the government machinery is operated by career civil servants who are not affected by electoral politics. Major civil disturbances are also unlikely regardless of the outcome, with any protests expected to be scheduled and held at designated areas.

WHAT IT MEANS FOR BUSINESS

It is unlikely that BN's victory would lead to major changes in Malaysia's trade and economic policies. Although civil liberties could be severely curtailed if the Islamist party PAS manages to influence the BN government's policy direction, the stricter implementation of Sharia rules would not apply to multinational corporations. PAS will very likely prioritize policing of individual Muslims.

A victory for PH is also unlikely to immediately result in an uncondusive business environment. In the states of Penang and Selangor, the PH governments have continued to pursue business friendly policies. Despite PH's promise of nationalizing the English Premier League broadcasting rights, held by the KL-listed Astro, the General Election is also unlikely to result in higher expropriation risk. There are no indications that a PH government would embark on a wide scale nationalization of privately-owned assets, and this particular example is an isolated case of trying to win young voters.

Planned high value infrastructure projects such as the new rail lines may be affected under a PH government that has promised to review major projects launched by Prime Minister Najib. A PH government may also be forced to find new sources of revenue if it keeps its promise to abolish the Goods and Services Tax (GST), that contributes about 18 per cent to the government revenue. The lack of credible revenue streams to replace the GST may affect Malaysia's sovereign ratings resulting in higher external borrowing costs.