

Malaysia's 14th General Election

Mahathir Returns to Power

May 10th, 2018



EXECUTIVE SUMMARY

In an outcome that surprised everyone, the opposition coalition led by Dr Mahathir Mohamad won the majority of the Parliamentary seats, enabling him to form the next Federal Government. Mahathir's Pakatan Harapan (PH) or Coalition of Hope together with a Sabah opposition party won 121 of the 222 Parliamentary seats. The outgoing government coalition, National Front (BN) won only 79 seats. The Islamist party, Pan Malaysia Islamic Party (PAS) won 18 seats. The remaining four seats were won by independent candidates and another small opposition party. At the state level, PH now controls five out of the 13 state governments. PH may end up with as many as seven states once the process of forming state governments is completed.

The transition process at the Federal level is likely to be smooth with Mahathir acknowledging the role of the head of the civil service in managing the transfer of power. In the coming weeks, it is very likely that the new Federal administration will focus on ensuring a smooth and orderly transition.

THE TRANSITION PROCESS

Barring any mass defection of PH Members of Parliament, Mahathir is likely to be sworn in as the Prime Minister in the coming days. As expected, the swearing in ceremony has been delayed for unknown reasons. Following his swearing in as the Prime Minister, Mahathir will negotiate with other PH parties on distribution of Cabinet positions. The slow process in Cabinet appointments is 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.

Mahathir was also gracious in announcing his coalition's victory, implicitly acknowledging the role of the head of the civil service - the Chief Secretary to the Government in managing an orderly transition. Following Mahathir's victory declaration, the Chief Secretary to the Government, Dr Ali Hamsa, announced a two-day public holiday, consistent with PH's election promise. Ali also urged civil servants to remain impartial and to continue serving "the elected government."

On the other hand, outgoing Prime Minister Najib Razak while conceding defeat, had refused to acknowledge Mahathir as the incoming Prime Minister, arguing that it is up to the King to confirm Mahathir's popularity among the newly-elected Members of Parliament. However, it is unlikely that Najib will be able to stop a PH government from being formed.

THE ISLAMIST PARTY

The Islamist PAS performed better than expected winning 18 Federal seats and two state governments in the East Coast. PAS' success in retaining its stronghold of Kelantan and winning the state

government of Terengganu means the new Federal administration will continue to be distracted by PAS' ideological ambition or worse, forced to adopt the party's Sharia agenda.

PAS had contested the General Election independent of the opposition coalition hoping that a narrow BN victory would enable the party to influence national policies. Prior to the General Election, Najib had allowed the Islamist party to table its proposed Sharia laws to Parliament for the past two years, but it did not lead to meaningful debates. The symbolic move could have turned into a concrete policy proposal if the BN government had won narrowly.

WHAT IT MEANS FOR BUSINESS

It is unlikely that the incoming Federal administration will pursue policies that will lead to an unfriendly business environment. In the states of Penang and Selangor, the PH governments have continued to pursue business friendly policies since winning the states in 2008. PH leaders' lack of experience means the coalition will rely heavily on career civil servants in policy formulation. The PH government however will have to convince investors on how Malaysia would meet its financial obligations if it keeps its election promise to abolish the Goods and Services Tax (GST) that contributes about 18 per cent to the government revenue. The promised reinstatement of fuel subsidies may further affect Malaysia's sovereign ratings resulting in higher external borrowing costs.

The PH's coalition promise to reduce the number of foreign workers could potentially lead to restrictions in hiring of foreign workers. The previous government had in 2016 attempted to restrict the hiring of foreign workers but reversed the decision following intense lobbying from labor intensive industries.

Planned high value infrastructure projects may proceed at a slower pace as the incoming government had promised to renegotiate some of the deals with project partners. Similarly, the planned High Speed Rail and the Rapid Transit System linking Singapore and Malaysia may be affected by the promised review. It is unlikely that Malaysia will cancel the cross-border rail projects as the government is in a legally binding agreement with Singapore to carry out the plans.