



## MALAYSIA'S GENERAL ELECTION 2018

MAY 23, 2018

- On May 8, in a stunning upset election that also marked Malaysia's first democratic transfer of power since independence, the opposition Pakatan Harapan (PH) party coalition united to defeat the ruling Barisan Nasional (BN) coalition, despite steep odds and heavy gerrymandering.
- The 92-year old Mahathir Mohamed, current PH chairman and former prime minister, was elected over Najib Tun Razak, who had served in that role since 2009.
- It is widely believed that Mahathir's leadership is needed to unify the PH coalition, which has deep personal and political rivalries within its ranks, and boost confidence in the new government.
- To help PH promote an image of stability among the electorate and business community, Mahathir has brought in seasoned politicians and businessmen as advisors and has made cabinet appointments that include technocrats as well as politicians, and reflect ethnic and religious diversity.
- As the new government takes shape and the bureaucracy realigns to new priorities, business leaders can use this time to reaffirm ties to Malaysia and engage the administration on outstanding policy issues.

### *Key New Leaders*

- **Anwar Ibrahim** – PH founder and former Malaysian Deputy Prime Minister Ibrahim, recently released from prison after a royal pardon, is expected to succeed Mahathir in within two years. In the meantime, he is expected to assume the deputy prime minister post currently held by his wife Wan Azizah. Before either of these happen he must first be elected to parliament through a by-election.
- **Lim Guan Eng** - A member of the Democratic Action Party (DAP), Chief Minister of Penang, and a former foe of Mahathir, Eng has been sworn in as finance minister. Lim will be the first ethnic Chinese to serve in the role in 44 years.
- **Azmin Ali** - PKR Deputy President and Selangor Chief Minister Datuk Seri Mohamed Azmin bin Ali was announced as minister of economic affairs, a new cabinet post with currently undefined jurisdiction and will be an important power broker in the new government. Azmin is expected to resign as chief minister of Selangor once his replacement is identified.

### ABOUT ASG

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- Najib's party, the United Malays National Organization (UMNO), and the former party of both Mahathir and Anwar, has been the most important political force in Malaysia since independence as the leader of BN but now faces an uncertain future. Any new UMNO leader will need to grapple with how the party functions without the patronage politics that it has used for so long. Some analysts question if the party can survive in opposition, given its heavy reliance on patron-client relationships and the decimation of its leadership in the recent election.

### *Policy Priorities Under Mahathir*

- The new government faces high expectations, and needs to balance disparate interests among coalition members. Managing Malaysia's bumiputra race-based patronage system will be particularly challenging. Many PH members, particularly ethnic Chinese Malaysians, feel strongly about the need for social justice, but changes could unnerve ethnic Malays.
- PH has promised to help lower income Malaysians, through measures that include the repeal of the unpopular goods and services tax (GST) as of June 1, doubling the minimum wage, easing student loan repayments, increasing spending in Malaysia's poorest states, freezing fuel costs, and reducing excise taxes on imported vehicles for first-time buyers. PH's plans are ambitious, and may strain Malaysia's finances if fully carried out. In particular, replacing GST funds, which contributed 18 percent to 2017 state revenue, will be a significant challenge.
- Mahathir has repeatedly told the media and his supporters that he felt compelled to run because of the 2015 1Malaysia Development Berhad (1MDB) corruption scandal. During Najib's tenure, 1MDB took on heavy debt, and reportedly over \$3.5 billion in funds went missing, with approximately \$700 million flowing through Najib's personal accounts.
- Mahathir has vowed to fully investigate 1MDB, a potentially disruptive process that is likely to lead to the arrest of Najib, members of his family, and officials involved in covering up the scandal.

### *Foreign Relations in Mahathir 2.0*

- In his first stint as prime minister from 1981-2003, Mahathir was known as a proponent of "Asia for Asians", and criticized the U.S. on many issues.
- More recently, he has raised concerns about the outsize dominance of China in the region. His promise to reevaluate Chinese-funded projects in Malaysia could be an irritant in the bilateral relationship.
- The 1MDB investigation may boost relations with the United States, through cooperation and potential U.S. assistance in repatriating missing funds, many of which are believed to have been laundered through the U.S.
- Mahathir has not made a definitive statement on the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the outlook for the agreement's ratification remains uncertain.

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*ASG's East Asia and Pacific Practice* has extensive experience helping clients navigate markets across ASEAN. For questions or to arrange a follow-up conversation please contact Anthony Nelson at [anelson@albrightstonebridge.com](mailto:anelson@albrightstonebridge.com).

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