Will the Asian Tiger Roar Again?
Malaysia after the election of a Lifetime

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Malaysian voters stunned the world by removing a coalition that had ruled the country for more than six decades. How will the small but strategically and economically important Southeast Asian nation use this once-in-a-lifetime opportunity to unite and rebuild? And what are the implications for foreign investors?

Malaysia’s Electoral Landslide

When voters in the May 9th election deposed the ruling Barisan Nasional (BN) coalition, the world took notice. It was good news at last from a country that had more than its share of negative headlines in recent years, despite a surging economy and a rebound in tourism following two major aviation disasters. After nine years under Prime Minister Najib Razak, the country was mired in racial tensions, scandal and controversy, but anyone predicting a power shift in Putrajaya would have been outright dismissed: “This is Malaysia, things don’t change.”

Najib fought tooth and nail but was brought down by his old mentor Dr. Mahathir Mohamad and Pakatan Harapan (Alliance of Hope), a fractured coalition of parties with little more than an off chance to win. Dr. Mahathir, or Dr. M as he is also known, had led Malaysia for 22 years. He toppled Najib by focusing on issues like the rising cost of living, the 1MDB scandal and the debt-dependency on China. Malaysians got the message and decided that this time enough was enough.

The shockwaves of Dr. Mahathir’s win, followed by the royal pardon and subsequent release from jail of Anwar Ibrahim, his charismatic former Deputy and Finance Minister and long-time foe, are being felt in the region and beyond. Mahathir is determined to clean up the institutions and Malaysians agree he is the only one in the country who could pull it off. The ultimate Elder Statesman, superman and freedom fighter in the eyes of many, Mahathir managed to create a viable political alternative, instilling hope and optimism across a majority of the electorate. “Standing on the threshold of history, it felt like our own Berlin Wall had finally come down,” Nurul Izzah, Anwar’s daughter and a political activist, wrote in an opinion piece.

Mahathir is not losing time. 13 ministers have been sworn in so far. He appointed a board of economic advisors and immediately abolished the contentious Goods and Services Tax (GST). Yet many wonder whether the oldest ever democratically elected Prime Minister can steer Malaysia out of its troubles. A look at what – and what not – to expect.
It’s ‘Business as Usual’ or Better – Except for China

The consensus among markets insiders is that Mahathir won’t dial back Najib’s liberalization measures and more welcoming stance towards foreign investors, the main drivers behind Malaysia’s enviable 5.7 per cent GDP growth. “For foreign investors, Malaysia is and always has been a very attractive place and they will continue to do business as usual,” said Tan Sri Rafidah, the country’s longstanding former Minister of International Trade and Industry.

Where investments originate from is another story. Addressing the growing domestic dissent towards the increasing presence of Chinese investment and the mounting debt is a top priority for the new administration. Mahathir, in one of his first public statements since the election, announced an extensive review of Chinese contracts, most of them strategically linked to China’s Belt and Road Initiative (BRI). The controversial new metropolis Forest City in the Southern state of Johor, which is being built by Chinese developer Country Garden without the involvement of Malaysian contractors, is just one example. While cancellations are unlikely (China is a big and influential neighbor), more projects will be re-assessed, particularly in transport (the high-speed rail project between Kuala Lumpur and Singapore), tech and real estate, and the verdict is out where lines, if any, will be drawn.

This is equally good news for European, Japanese and US contractors who bemoaned China’s preferential treatment that is killing fair competition. Tan Sri Rafidah leaves no doubt: “I feel the governance of Malaysia will be in line with the new demands of the dynamic global economic environment. Hence policies would be expected to address the new needs and expectations of investors and improve the operating environment in Malaysia,” she said, adding that keeping costs of doing business down and creating an even more business friendly environment would be key focus areas. If reinstating a more level playing field amongst competitors for large infrastructure contracts is part of these initiatives, it would be a clear win-win for all, not least for Malaysians who would get more and pay far less.

There is also a political dividend as Malaysia was always seen as a trusted international partner in the fight against Islamic terrorism. Fortunately, radical Islamic propaganda was mostly absent from the election campaign (the Islamic Party PAS did win two states though) and there is no daylight between Najib and Mahathir when it comes to the fight against international terror.

Watch the Opposition – UMNO’s Stance Can Make or Break Things

In Malaysia, playing politics is part of the DNA. Since introducing the concept of ‘Malaysia Inc.’, Mahathir’s formula for nurturing a layer of wealthy Malays supposed to create economic opportunity for all Malays, cronyism has plagued the country. The situation worsened when Najib turned a blind eye on preserving the common good by installing too many Yes Men in formerly independent institutions to advance his own agenda. Now openly labeled as the root cause of all evil, the Alliance of Hope government will have to show its determination to prosecute and stamp out the inherent rampant corruption.

While the new Cabinet is taking control, voters in Malaysia’s rural areas, a traditional stronghold of UMNO (the United Malays National Organisation and leading party within BN), are unconvinced about the upside
for them. “The Malay belt rejected UMNO but is ambivalent and unsure about lending its support to the alternative multi-racial pluralistic Pakatan Harapan,” Anwar Ibrahim noted in an interview with Bloomberg TV.

A strong opposition is vital for the new found democratic culture. That role falls into UMNO’s lap and if done properly could also help fostering a sense of shared identity and social cohesion. The party is still reeling from defeat but likely to pick up the fight once a new leadership has been installed. The question is whether it will settle to be a constructive player in an unfamiliar opposition role. Some Malaysians remain doubtful: “UMNO voters will still want to use the racism card and they will try to work with PAS and other Malay parties to push their own agenda,” said Reza H. Ismail, a Malay businessman who supported UMNO all his life. The unity of the country will depend on UMNO’s conduct in the months and years ahead.

The Economy and Cost of Living

Pakatan Harapan promised to tackle the rising cost of living for the common man and Mahathir will be held to that task. Reducing the GST from 6 to 0 per cent will be a boost for domestic consumption that should come with little negative impact according to CIMB, one of Malaysia’s leading banks. Higher consumption of course should help cushion the impact of cuts in government spending and the review of infrastructure projects. In more good news, the Malaysian Ringgit is expected to strengthen as rising oil prices boost the economy. And the government can bank on higher collection of corporate taxes.

While the finer details of the fiscal budget remain opaque for now, one thing seems clear: if consumer prices are coming down in the coming months, Malaysians will have good reason to believe that their lives are going to improve and that would send a very positive signal. The newly sworn-in Finance Minister Lim Guan Eng is highly capable – he managed Penang’s economic turnaround – and Mahathir has a reputation for doing what’s needed to protect the Ringgit. Watch the next days and weeks for more key announcements.

Transparency and Governance – 1MDB and its Aftermath

A major stain on Malaysia’s international reputation, the 1MDB scandal is in the crosshairs of prosecutors and charges are likely to be filed soon as a special squad has been set up to investigate the case. U.S. investigators say that at least $4.5 billion was misappropriated from the fund that Najib oversaw. Some of that missing money allegedly ended up in his personal account before he returned a big chunk of what he said had been ‘donations’. The magnitude and boldness of how the money was channeled, whitewashed and globally hidden in offshore companies is mindboggling. Najib’s wife Rosmah Mansor, the collector of jewelry and expensive handbags, quickly replaced Imelda Marcos as the poster child for greed while Najib himself is becoming the new synonym for kleptocrat.

But there’s a flipside. Najib’s unrestrained behavior did not occur in a vacuum. Malaysia has lived with cronyism and the extension of political favors to friendly parties since its inception. There are other deals which could turn into a Pandora’s box once re-opened and investigated. The fraud in Felda Global Ventures or the Port Klang Free Zone scandal are just two examples. The list is growing and the task at
hand gigantic. As long as Malaysia keeps investing in more transparency and good governance, it will have a majority of the people on its side. Does that suggest the rule of law will finally prevail? Early signs are promising but nothing is carved in stone.

**Be Careful in Raising Expectations – Nothing Changes Overnight**

The outcome of Malaysia’s 14th general election and the equally significant royal pardon of Anwar Ibrahim provide material for historians and political scientists for years to come. What stands out is the ability of a fractured opposition to coalesce around a common cause and create a movement powerful enough to topple a Prime Minister and his coalition that had the legislative branch, law enforcement and all other political tools at their disposal.

Not many Asian countries can lay claim to such democratic accomplishment. Malaysia’s story is a shining example of people power and Malaysians can be proud of it. The danger now is that the rakyat (the Malaysian people) expect too much too fast. Malaysia’s many structural problems will take time to solve, from fixing the judiciary and education to reviewing Bumiputera policies to the strengthening of the Ringgit and the restructuring of megaprojects.

Some voters may be disappointed that Anwar won’t join the government for at least one or two years when he is expected to succeed Mahathir to lead the country as the 8th Prime Minister. That does not mean he is not already playing an active role in shaping the new Malaysia. For now, Anwar will be the nation’s ambassador and public face to the world – a role perfectly suited to him that should also help shoring up investor confidence.

The economic effect of any of the discussed measures can be months in the making. The stronger Ringgit (predicted at RM 3.75 to the dollar) won’t materialize before September. And criminal investigations, if done by the book, will also take time. That means expectations need to be managed carefully while keeping the spirit alive.

**Conclusion**

Is Malaysia in for a new deal or are we merely witnessing a return to the old days of the Mahathir 1.0 premiership (minus the cronyism)? Only time will tell, but believing in and actively supporting the new vision for Malaysia should come at no harm for businesses, including foreign investors. All options are available if Malaysia stays on course. The country managed to roar as an Asian Tiger before and it might come back to rule as a lion.
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