

Risks for investors ahead of 2018 Malaysia elections

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MALAYSIA, A KEY SOUTHEAST ASIAN ECONOMY AND A SIGNIFICANT BASE FOR foreign multinationals in the region, will be holding federal parliamentary elections in the first half of 2018. The incumbent Prime Minister (“PM”), Najib Razak, remains firmly in control of the ruling United Malays National Organisation (“UMNO”) party, and is predicted to retain power.



Nonetheless, investors should be aware of elevated fraud and corruption risks in the lead-up to the election, especially when dealing with politically sensitive or heavily unionized industries, and sectors which are rural-focused. The manufacturing, aviation, plantations, and agriculture sectors would be of key concern. The ruling coalition will depend strongly on votes from workers in these industries. If past elections are any indication, there will be significant “vote-buying” exercises¹ where exposed companies may be instructed to donate to UMNO-related causes. Such politically-linked donations come with attendant risks; often foreign investors in exposed Malaysian companies are unaware that such donations are being made, or the potential impact these donations could have on their day-to-day business operations.

There has been much speculation on when Najib will call for the election, which by law must be held before the end of August 2018. Unconfirmed rumors put them during the school holidays in mid-late March² (as schools are repurposed as polling stations in Malaysia). Nomura, a leading Japanese financial services institution, predicted that the election would be held between March and May.³

Former PM Mahathir Mohamad (“Mahathir”) has been officially confirmed as the leader of the opposition alliance, Pakatan Harapan⁴ (“PH”). While grassroots activists in the opposition alliance have been disheartened about Mahathir’s appointment given his record of crony capitalism⁵ as former PM, Mahathir’s brand-name recognition is likely to give the opposition alliance a strong boost in rural areas⁶, which is a major support base for UMNO. However, Mahathir’s party Bersatu, formed only in late 2016 and a constituent member of PH, is untested. Observers have doubts about whether Bersatu will be able to wrest a sufficient number of seats in rural areas from UMNO.

Separately, Anwar Ibrahim (“Anwar”), the de facto leader of the opposition, is **scheduled to be released from prison in June 2018**⁷, from what the UN Human Rights Council deemed politically motivated sodomy charges.⁸ Despite his impending release, Anwar would be ineligible to hold political office for five years after his release. Amidst concerns about Mahathir’s advanced age (he is 92), PH leaders claim that if PH wins the election, that Mahathir will immediately initiate processes to obtain a royal pardon for Anwar’s charges,⁹ and would allow Anwar to become PM if Mahathir resigns. However, members of the ruling UMNO party have claimed that Mahathir would not relinquish power to Anwar¹⁰ in light of Mahathir’s longtime political rivalry with Anwar. It was Mahathir during his time as PM who charged Anwar with sodomy. This raises concerns of prolonged political instability should PH be elected.

Political analysts overall agree that it remains likely that UMNO and its allied parties will retain a majority in parliament, albeit possibly with a reduced popular vote. PH faces several obstacles, including an electoral boundary shift which strongly favors the incumbents¹¹ and bickering within the PH camp on which seats to contest.¹² Observers should closely monitor the role of the Malaysian Islamic Party (“PAS”) which is neither part of PH nor UMNO’s alliance and is seen as a “kingmaker” in upcoming elections. There are indications that PAS may play a “spoiler” role by splitting the vote between multiple opposition parties;¹³ Malaysia’s first-past-the-post electoral system means that the party with the largest share of votes will win a parliamentary seat in a given district, regardless if a majority is won or not. The division of the opposition vote between PH parties and PAS would only benefit UMNO with the latter’s entrenched election machinery.



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