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Asia

## Equity Research

Other

Industry Overview

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## Malaysia: Early Elections In The Offing?

## Sector View:

New: 0-Not Rated

Old: 0-Not Rated

## Investment Conclusion

- We judge that ongoing political agitation is unlikely to have any impact on economic policy.

## Summary

- Despite a recent run of popular protests against the government which may encourage an early election, significant policy shifts remain unlikely and a change of government even more so.

## UMNO STILL IN CONTROL

Although the current government in Malaysia could continue in office until April 2009, speculation has been rife for some weeks now that Prime Minister Abdullah Badawi could call an election as early as the first half of 2008.<sup>1</sup>

Such a move would likely be in part in response to popular demands from opposition party supporters for electoral reform, which have recently seen the largest anti-government protests since the jailing in 1999 of former Deputy Prime Minister Anwar Ibrahim – now out of jail and leading the opposition again.

## Divided Opposition

However justified (or otherwise) the claims of the protestors, electoral reform alone would almost certainly not suffice to secure an opposition victory in the next election (irrespective of when it is held).<sup>2</sup> United on the street the protestors may be under their banner of *Bersih* ("clean"). But Mr Anwar has so far been unsuccessful in his attempts to bring the three main opposition parties – the Democratic Action Party (DAP), the Parti Islam sa-Malaysia (PAS) and the Parti Keadilan Rakyat (PKR, led by Mr Anwar's wife Dr Wan Azizah Wan Ismail) – formally together along the lines of the Barisan Alternatif (BA) coalition which made some headway in establishing itself as a counterweight to the long-ruling Barisan Nasional (BN) in the 1999 general election but which fell apart in September 2001.<sup>3</sup>

Furthermore, even if Mr Anwar does succeed in re-establishing the BA before the next election, it would be a major shock if it were to defeat a ruling coalition which currently holds 199 out of 219 parliamentary seats and which benefits from a well-honed electoral machine. Indeed, even opposition activists acknowledge that, despite rising dissatisfaction with the government, securing 60 seats in the next election is probably the most to be expected.

<sup>1</sup> Earlier this year there was even speculation that the government might call an election as early as November 2007, ie immediately after Ramadan, to capitalise on momentum following its successes in recent local elections and to pre-empt the possible consolidation of the opposition movement.

<sup>2</sup> The protestors' demands include equal party access to the state-controlled media, a clean-up of voter rolls and a crackdown on a range of alleged voting irregularities.

<sup>3</sup> Despite facing a more unified opposition in 1999 in the form of the BA ("Alternative Front"), the BN ("National Front") still secured 77% of the overall vote which, under Malaysia's first-past-the-post system, translated into 148 out of (at that time) 193 seats. Indeed, the BN – and its predecessor, the Parti Perikatan – has been in power continuously since Malaysian independence in 1957.

The BA's split – and failure to reconsolidate – is rooted in PAS's unwillingness to renounce publicly its aim of making Malaysia an Islamic state, anathema to the country's 45% non-Muslim minority. PAS's BA partners considered that their association with PAS (which had been the big winner in 1999, capturing the states of Kelantan and Terengganu and increasing its parliamentary seats from seven to 27) was costing them support; and, following the 11 September 2001 terrorist attacks on the US, the largely ethnic-Chinese DAP (which had only increased its parliamentary seats from seven to 10 in 1999 and seen two of its leaders unseated in the process) withdrew from the coalition.

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## Judicial Review

The proximate cause of that dissatisfaction revolves around concerns over judicial independence, which Mr Anwar has sought to exploit and which saw Malaysian lawyers demonstrating in the country's administrative capital, Putrajaya, in September.<sup>4</sup> Related was a more or less unprecedented refusal by Malaysia's essentially ceremonial monarchy formally to approve the government's nominee as chief justice to the federal court.<sup>5</sup>

## UMNO And The Silent Majority

Nevertheless, there is no sign that either the independence of the judiciary or electoral reform is preoccupying the majority of Malaysia's voters, who continue to see the dominant partner in the BA, the United Malays National Organisation (UMNO) which currently holds 109 parliamentary seats in its own right, as a force for growth and stability.<sup>6</sup>

This reinforces our view that whenever it is held the next election is likely to see the BN returned to government albeit perhaps not with the current massive majority. Nevertheless, if the opposition were to make significant inroads into that majority it could see renewed pressure on the current prime minister and UMNO president Abdullah Ahmad Badawi, who is recently come in for several bouts of criticism from his still highly influential predecessor, Dr Mahathir bin Mohamad. But even a change at the BN helm coupled with a more effective opposition is unlikely to signal any significant shifts in government policy.

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<sup>4</sup> *The independence of Malaysia's judiciary has been called into question since a constitutional crisis in 1988 during which the federal constitution was amended to divest the courts of the "judicial powers of the Federation", replacing them with such powers as parliament might chose to grant.*

<sup>5</sup> *As a result – and echoing events in Thailand in 2006 – the immediate objective of the more recent street protests seems to be to secure support for electoral reform from the nine hereditary state sultans who share Malaysia's five-year rotating kingship.*

<sup>6</sup> *The BA comprises 13 parties in total but the majority of its seats are held by the three largest ethnically-based parties, ie UMNO (ethnic Malay), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC)*

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