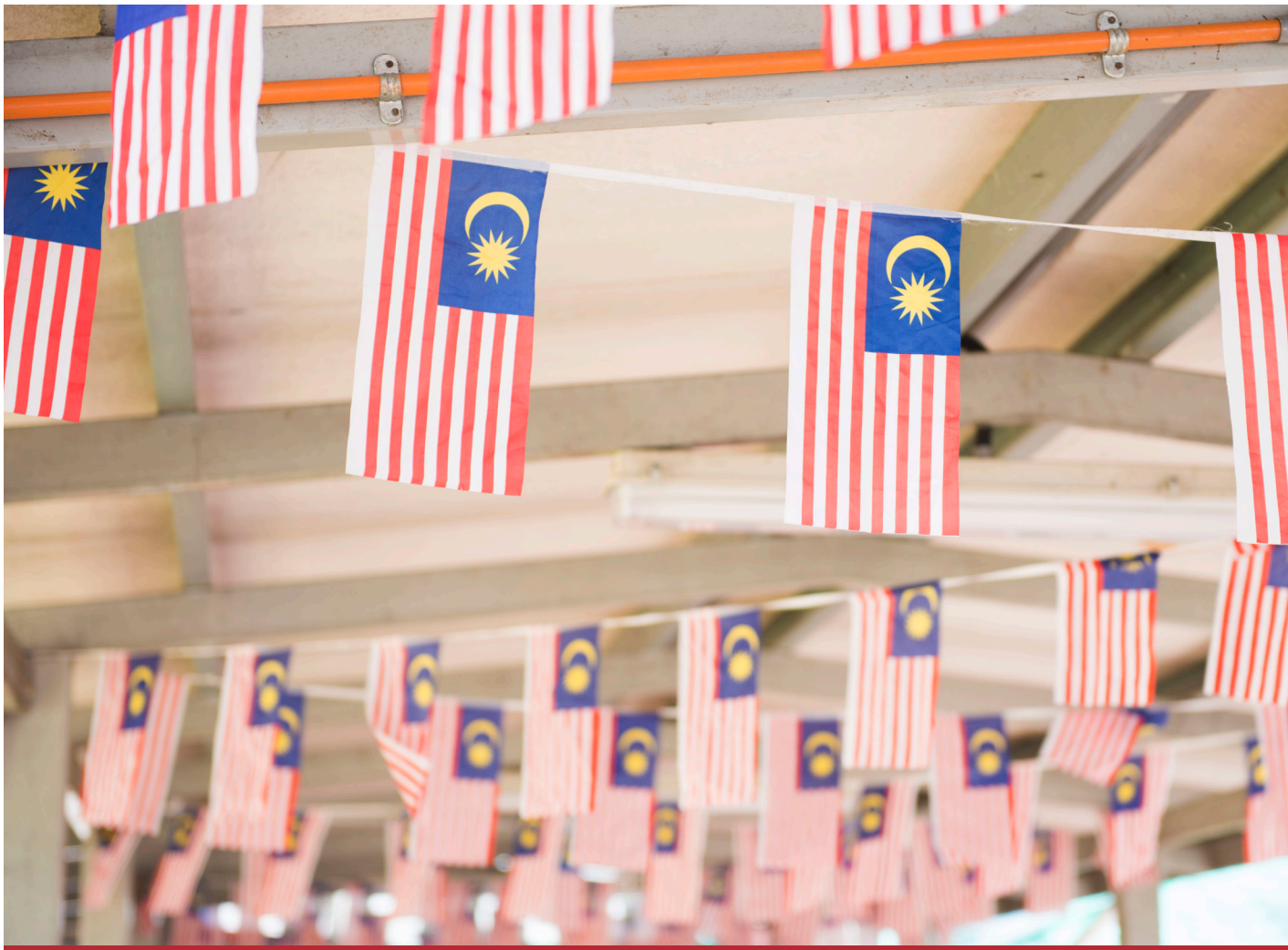


Malaysia: Anticipating the next election

The political fallout from the United States Department of Justice investigation

By **Shaun Sandu**, Associate Director



In late July 2016, the United States Department of Justice (“DoJ”) [filed a civil suit¹](#) against several high-level Malaysian officials and close associates involved in 1Malaysia Development Berhad (“1MDB”), Malaysia’s troubled state-owned investment fund, alleging they were involved in misappropriation and corruption.

It was subsequently [confirmed by a member of Malaysia’s cabinet²](#), as well as an [unnamed official from the DoJ³](#), that the “Malaysian Official 1” named in the DoJ suit as the alleged recipient of more than USD 700 million of funds allegedly diverted from 1MDB is Malaysia’s Prime Minister Najib Razak – the chairman of the advisory board of 1MDB.

Malaysia’s ruling Barisan Nasional administration (“BN”), a coalition led by Najib’s United Malays National Organisation (“UMNO”), has attempted to absolve Najib of any connections to the legal proceedings, claiming that at present the suit is aimed at asset recovery rather than the pressing of criminal charges. However, [U.S. officials have confirmed that a related criminal investigation is also ongoing⁴](#), potentially raising the risk of a lawsuit against the individuals involved.

Some commentators from within and outside UMNO have opined that Najib could prove to be a liability to UMNO due to his personal unpopularity and the risk of a possible ill-timed criminal suit filed by U.S. authorities during the upcoming Malaysian general elections (which must be held before mid-2018). Meanwhile, [defections among state-level leaders⁵](#) in UMNO who are dissatisfied with Najib’s leadership in the organization [are growing⁶](#).

However, despite a weakening of support among UMNO grass roots, it is thought that Najib is still likely to remain firmly in control of UMNO’s leadership bodies at least for the next few months. This means that Najib could possibly be able to make a decision on whether to call for snap elections early in 2017 while he still maintains control of UMNO, or to hand-pick a successor for elections in late 2017 or early 2018. Either option presents advantages for the ruling

BN administration. While early elections allow BN to capitalize on the current fragmentation of the opposition coalition, the longer game allows BN to attempt to solidify its tentative attempts to ally with the “third party” Parti Islam Se-Malaysia (“PAS”) and the recovery of Malaysian consumer confidence.

Malaysia’s overall economic growth remains positive and attractive to foreign investors. However, in the past two years, the [combined impact⁷](#) of falling oil prices, higher consumption taxes, and reduced government subsidies (such as for cooking oil, sugar, and fuel) have especially hard hit Malaysia’s middle class as well as the rural poor. For example, Malaysia’s consumer price index hit an [all-time high of 115.6 points in August 2016⁸](#). While there may be an economic case for increasing taxes and removing subsidies, the decision of the government to do so amidst the allegations of siphoning from state-owned funds has provoked frustration in some quarters. Najib’s move in October 2016 to unveil a [government budget⁹](#) whose centerpiece is direct cash handouts to low-income households and rural villages may go some way to address these issues ahead of the election.



The early election scenario

In the early election scenario, if the BN administration calls for an election in the first half of 2017, Najib would likely remain the leader of UMNO and BN going into the election. BN would benefit from the lack of coordination between the various parties which currently make up the opposition coalition Pakatan Harapan, consisting of the People's Justice Party ("PKR"), the Democratic Action Party ("DAP"), and Parti Amanah Negara ("Amanah"), as well as new entrants such as Bersatu, which is chaired by Najib's chief detractor, former Prime Minister Mahathir Mohamad, and led by Najib's former deputy, Muhyiddin Yassin. Amanah itself is a new party which was formed in September 2015 as a splinter of PAS. PAS departed the former opposition coalition over the issue of imposing Islamic law, or hudud, in Kelantan state.

The current state of political fragmentation would benefit UMNO due to Malaysia's "first past the post" system in its parliamentary elections, even if its vote share falls. The growing number of opposition parties competing in the same districts may well split the opposition vote, allowing UMNO to secure more seats in Parliament. In the northern West Malaysian states of Kelantan, Kedah, Perlis, and Terengganu, up to four political parties will be competing for votes: UMNO, PAS, Amanah, and PKR. The likely end result of this is that UMNO will be able to lean on its entrenched campaigning apparatus to get a plurality of votes, leaving the majority of votes divided among the losing parties PAS, Amanah, and PKR.

As an example, in a previous election UMNO may have won 60% of votes in a district, with PAS winning 40%. However, in the next election, UMNO may be competing against both PAS and Amanah in the same district. While UMNO may potentially only win 40% of the vote (with PAS and Amanah splitting the at 30% each), this would be sufficient for UMNO to win the district and the concurrent seat in Parliament. In this scenario, UMNO would gain some seats in the north, which would likely make up for BN's possible losses in urban areas and in the popular vote.

It is difficult at this point to predict the effect of Bersatu, which was only officially registered as a political party in August 2016. Despite its association with Mahathir and Muhyiddin, which on paper strengthens its ability to appeal to UMNO's ethnic Malay support base, Bersatu does not yet have a functional campaigning apparatus. Additionally, it remains to be seen if it will be able to secure an electoral agreement with Amanah, PKR, or PAS to avoid three-cornered races which would work in UMNO's favor. All the same, there are ongoing reports of [defections from UMNO leaders to Bersatu](#)¹⁰.

These factors would likely blunt the negative electoral impact of the weakening ringgit, subsidy reductions, and tax increases on BN's electoral performance in the short term. The complex 1MDB issue itself does not hold much resonance among voters, especially outside urban areas, which are in any case opposition strongholds. One potential source of assistance to the opposition would be if formal criminal charges were to be brought against Najib in the lead-up to the election. However this would be difficult to predict and could instead play to UMNO's advantage as a manifestation of "foreign interference."

The long game

If Najib decides to delay an election past mid-2017, he will continue to face mounting internal challenges to his leadership within UMNO. In this scenario, he may decide to abdicate power to a close ally within the party instead of risking exposing the party to an even poorer result than it experienced in the 2013 general elections. At present, this successor seems most likely to be Zahid Hamidi, the current Home Minister and deputy Prime Minister. Zahid has been steadfast in his support of Najib's leadership despite challenges from within his own cabinet from people such as his former deputy Muhyiddin Yassin. This process would be carefully staged and managed by Najib in 2017, and would have a precedent in Mahathir Mohamad's managed transition to his deputy Ahmad Badawi in 2003. In the latter case, Ahmad Badawi led BN to its best electoral performance in several decades during the March 2004 general elections.

Such a transition would allow BN to credibly claim to its support base that it had internally solved its issues, and thus weaken the appeal of challengers for the Malay vote – especially PKR, PAS, and Bersatu – and to an extent regain its stature among foreign investors wary of looming lawsuits against a sitting Prime Minister. Delaying the election also allows more time for the Malaysian economy, and possibly oil prices, to recover, which would be an advantage for the incumbent BN administration.

While delaying the election gives the opposition more time to coordinate its electoral strategy, given the absence of a credible unifying figure like Anwar Ibrahim (former head of PKR and the former opposition coalition), this will be arguably quite difficult. Anwar will remain in prison until 2020 on [allegedly politically motivated sodomy charges](#)¹¹ until well after the next election. It is more likely that UMNO would be able to use this delay for its own benefit by working out an electoral pact with PAS to avoid contesting the same seats in exchange for UMNO's providing assurances to PAS in the implementation of hudud in some states.

Uphill battle for the opposition

In either scenario, the opposition will face a difficult time in forming the next government despite the ongoing DoJ lawsuit and slowing Malaysian economy. The key underlying reason for this is the departure of PAS (and 14 of its parliamentary seats) from the opposition coalition. If there are serious moves indicating that PAS would work out an electoral pact with the opposition to avoid three-cornered races or to caucus on some issues, there may be a small chance for the Pakatan Harapan coalition to take power following the next election.

However, a victory for the opposition remains unlikely, given deep ideological differences between DAP and PAS on key issues (such as hudud), which remain unresolved. UMNO leaders are aware of these differences and will work strenuously to avoid PAS rejoining the opposition coalition.

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