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How the Pandemic Is Keeping Malaysia's Politics Messy

Malaysia's first transfer of power in six decades was hailed as a milestone for transparency, free speech and racial tolerance in the multiethnic Southeast Asian state. But in 2020 the new coalition collapsed amid an all-too-familiar mix of political intrigue and horse trading. Elements of the old regime were brought into a shaky new government that has fallen apart as well. The turmoil stems in part from an entrenched system of affirmative-action policies that critics say fosters cronyism and identity-based politics, while a state of emergency declared due to the coronavirus pandemic has hampered plans for fresh elections.

1. How did this start?

Two veteran politicians, Mahathir Mohamad and Anwar Ibrahim, pulled off a shocking election victory in 2018 that ousted then-Prime Minister Najib Razak, who was enmeshed in a massive money-laundering scandal linked to the state investment firm 1MDB. Mahathir became prime minister again (he held the post from 1981 to 2003), with the understanding that he would hand over to Anwar at some point. Delays in setting a date and policy disputes led to tensions that boiled over in February 2020. Mahathir stepped down and sought to strengthen his hand by forming a unity government outside party politics. But the king pre-empted his efforts by naming Mahathir's erstwhile right-hand man, Muhyiddin Yassin, as prime minister, Malaysia's eighth since independence from the U.K. in 1957. Mahathir formed a new party to take on the government but has failed to get it registered. Anwar, meanwhile, failed in his bid to persuade the king to let him form a new government.

2. There's a king?

Malaysia is a parliamentary democracy along the lines of the U.K., except instead of one constitutional monarch the title rotates every five years among the rulers of nine Malay states. The king, known as the Yang di-Pertuan Agong, usually stays on the sidelines performing ceremonial duties, but is involved in major appointments like that of prime minister. He also is the one who declared the national state of emergency on Jan. 12, 2021 "as a proactive measure" to help contain a new surge in Covid-19 cases. The decree, which also suspends parliament, was the first since deadly ethnic rioting in 1969.

3. What's the political maneuvering?

Najib's United Malays National Organisation, the largest party in the new ruling coalition, finally acted on its threat to pull out in July. That means Muhyiddin, who left UNMO years ago, will have to ask for another vote of confidence when parliament reconvenes July 26 for five days to discuss a pandemic recovery plan. If he loses, parliament is dissolved, a caretaker cabinet takes over and has 60 days to call a general election. (Muhyiddin had resisted pressure to call a new election, saying he wanted to wait until an independent committee declares that it's safe to proceed. Opposition politicians had accused him of using the pandemic as an excuse to stay in power.)

4. Who is Muhyiddin?

A 73-year-old career politician, he was Najib's deputy for six years before he was sacked in July 2015 after calling for greater clarity in the 1MDB investigations. He later joined forces with Mahathir to set up the new Bersatu party, and became home affairs minister in his government. A cancer survivor who's generally low profile, he's perhaps best known for quipping in 2010 that he considers himself "Malay first" and Malaysian second.

Malaysia King Names Muhyiddin as Premier to Succeed Mahathir

5. What does 'Malay first' mean?

Some 56% of the country's 31 million people are ethnic Malay (defined in the constitution as Muslim), and another 13% belong to other indigenous groups, according to 2019 estimates from the Department of Statistics Malaysia. Collectively they are known as bumiputera, or "sons of the soil." There are also large ethnic Chinese and Indian minorities who are Christian, Buddhist and Hindu. Government policies give preferential treatment to bumiputera, traditionally seen as disenfranchised, in such areas as public-sector jobs, housing and higher education. Critics say the preferences have fostered cronyism and a dependence on state handouts and have prompted many educated minorities to look for work overseas, draining the economy of talent. But they are something of a "third rail" in Malaysia's polarized politics. Mahathir's appointment of Lim Guan Eng as finance minister, the first ethnic Chinese to hold the post in over four decades, sowed suspicion among Malay nationalists that their benefits would be eroded, costing the coalition support.

6. How did Muhyiddin do?

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Despite being backed by UMNO, his administration has seen progress in resolving the 1MDB scandal, including a conviction for Najib, which caused some discontent within UNMO. It and other parties in the new government support a more conservative agenda favoring Malays, including measures to promote a stricter version of Islam. Muhyiddin had pledged to be prime minister for all races and to strengthen government integrity. The emergency decree gave Muhyiddin some breathing room as the pandemic worsens; the new infection rate has tripled from about 2,000 a day in January, and a nationwide lockdown has been extended. The government in June unveiled its fourth stimulus package.

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7. What about the economy?

Already sputtering before the pandemic, it went into a tailspin as trade and tourism suffered and lockdowns dampened consumption and investment. The Finance Ministry has estimated the 2020 contraction in gross domestic product at 5.5% -- the worst since the 1998 financial crisis. (A pre-pandemic forecast was for 4.8% growth.) This year, it's targeting 6.5%-7.5% growth. The government's 322.5 billion ringgit (about \$80 billion) budget for 2021 is the country's biggest ever. It includes a cut in personal income taxes, monetary aid for businesses and breaks for first-time home buyers, and follows a \$73 billion stimulus budget in 2020. But oil-related earnings remain in decline amid volatile crude prices, adding headwinds for exports and potentially undermining the government's capacity to boost infrastructure spending, lift incomes and rein in government debt. Fitch Ratings cut Malaysia's sovereign rating in early December. Even before the pandemic, surveys found rising living costs and a lack of jobs had replaced corruption and abuse of power as voters' top concerns.

8. What does it mean for investors?

The key stock index, which has been one of the world's worst-performers since the 2018 election, slumped to its lowest since 2011 a day after Muhyiddin's appointment, though by late September it had recouped most of the loss and ended the year (2020) with its first annual gain since 2017. The ringgit dropped to a one-month low after emergency declaration on Jan. 12.

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