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Malaysia at the Crossroads – Pride & Pragmatism

*A few weeks after the storm of the Malaysian general election had abated, stars Singapore alumni chapter Co-Presidents **Tom Ludescher** and **Charles Chao Rong Phua** on 21 June 2018 hosted a stars Singapore alumni chapter meeting focusing on the challenges and opportunities the future holds for Malaysia. The chapter meeting was attended by around 40 stars alumni and friends.*

The following experts shared their views on the panel:

- **Rajeev De Mello**, Head, Asian Fixed Income, Co-Head, Emerging Market Debt Relative, Schroder Investment Management, Singapore
- **Tang Siew Mun**, Senior Fellow, Regional Strategic & Political Studies, Head, ASEAN Studies, ISEAS-Yusof Ishak Institute, Singapore
- **Charles Chao Rong Phua**, Co-President, stars Singapore alumni chapter, President, Association for Public Affairs, Singapore
- **Tom Ludescher**, Co-President, stars Singapore alumni chapter, Chairman, SwissCham Singapore
- **Manfred Rist**, South East Asia Correspondent, Neue Zuercher Zeitung (NZZ), Singapore



Key take-aways from the panel discussion:

- The 14th general election in Malaysia has given birth to a **new political force** that has been overlooked for quite some time: **the people**. The magnitude of the democratic change can be compared to the people's power movements in the Philippines.
- The huge **surprise victory by Pakatan-Harapan** triggered **concerns among foreign investors in Malaysia**. Bond and equity portfolio flows into the country, which were largely balanced in the run up to the election, swiftly reversed and led to significant outflows. **Malaysia's main equity index has declined** by about 5 per cent and the **Ringgit has weakened against the US dollar**.
- The regime change in Kuala Lumpur is happening at a time when **rule of law, human rights and democratic accountability** have become a sort of "**endangered species**" in **South East Asia**. It remains to be seen, however, if Malaysia and its new government can live up the expectations at home and abroad.
- The trend towards **strengthening Islam** is likely to continue under Mahathir.
- **Malaysia benefits from higher oil and energy prices** which are positive for the budget and for the current account surplus. The fight against corruption will reduce wasteful investment programs.
- The change in Malaysia has caught Singapore on the wrong foot. **Singapore** as whole **was not prepared** at all. The Republic has yet to come to terms with the ousting and the fall of Najib Razak.
- The **1Malaysia Development Berhad (1MDB) Scandal has put Singapore into an extremely uncomfortable position**: On the one hand, Singapore is committed to a clean financial market, good governance and a corruption-free environment. On the other hand, Najib-Malaysia, with whom the Singapore government had very good and very close relations, has turned out to be the grotesque opposite of all that.
- The dust from the election in Malaysia has not yet settled. The survival of the Pakatan coalition is uncertain, as are questions of succession and future leadership. The change of government, the rise of Mahathir, the uncertain future of bilateral projects and the 1MDB aftermath will bring **months or even years of unpredictability in bilateral relations between Singapore and Malaysia**. For instance, plans to build a high-speed railway to link Kuala Lumpur with Singapore have already been scrapped by Mahathir
- Mahathir will **better balance the great powers in Asia**, particularly **China and Japan**. He has already revived the partnership with Japan (which was inexistent under Najib). The **Look East Policy (LEP) 3.0** under Mahathir's leadership will put Japan firmly back onto Malaysia's political and strategic radar.
- Mahathir already reached out to Abe for **Japanese loans to help reduce Malaysia's national debt**, which has ballooned to fund mega-projects awarded to Chinese-linked companies. Several **multibillion dollar projects backed by China have already been cancelled by Mahathir** and he is reviewing further investments.
- Mahathir will continue to pursue **friendly economic and diplomatic relations with China** but will nevertheless protect Malaysia's national interests in other areas such as the South China Sea disputes. Japan stands to reap political gains as Mahathir attempts to **steer Malaysia from its over-dependency on China**.
- In his suggestion of the "**new**" **East Asia Economic Caucus (EAEC)**, a regional economic grouping comprising of the **ASEAN+3** (ASEAN, China, Korea and Japan), Mahathir wants to **include India and "some Central Asian countries"** into the mix. The inclusion of India implies that he has come around to the idea that internal balancing in the region is desirable to **prevent the rise of a hegemonic power**.

- Mahathir wants Malaysia to **review its membership** in the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**, which may presage Malaysia's withdrawal from the 11-member free trade pact.
- Mahathir's **protectionist instinct** could deny Malaysia a significant role in keeping the flag of open and free trade flying high in the wider region.
- Mahathir is **not expected to change the system quickly from the Malay-first model towards the everyone-is-equal Singapore model** since this would make the basis of supporters from the traditionally strong Malay base erode. A good balance will be required to give hope to the underprivileged on the one hand while keeping the yet over privileged Malay supportive.

The views expressed here are solely those of the speakers and they do not necessarily represent or reflect the views of the stars Foundation.

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