

The ethnic party system in Malaysia

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IN MALAYSIA, political expediency and racial demography during decolonization led to the emergence of an ethnically dominated party system. An ethnic party typically champions the interests of a particular ethnic group. To gain political support ethnic parties would typically manipulate ethnic ties and raise fears of ethnic outsiders, whereby ensuring that voting choice becomes bounded by ethnicity. When voting choice becomes circumscribed by ethnicity, it reduces competition for electoral support to within ethnic groups and not across ethnic groups. Thus, "each party, recognizing that it cannot count on defections from members of the other ethnic groups, has the incentive to solidify the support of its own group".¹ The prevalence of ethnic voting hence will marginalize parties which organize and campaign along non-ethnic lines.

The Malaysian authoritarian regime has been aptly characterized as an 'electoral one-party state' where a dominant ruling coalition has won every election held since Independence and is habitually "equated with the state".² The ruling coalition is composed of ethnic parties where each of which still profess to be working for the interests of its own ethnic group. The coalition party formula was stumbled upon by the United Malays National Organization (UMNO) and the Malay(sian) Chinese Association (MCA) in the 1952 Kuala Lumpur municipal election. As society was ethnically segregated and with voting on a wholly ethnic basis, the coalition formula helped UMNO and MCA to pool their respective ethnic group support. This vote pooling strategy enabled the two parties to convincingly defeat the non-ethnic Independence of Malaya Party. Thus a multi-ethnic coalition would gain from vote pooling by allowing each component party to cast itself as an ethnic party representing the interests of its own ethnic group while remaining in the coalition.

Subsequently, the ruling coalition's electoral success was largely as a multi-ethnic coalition, which could time and again capture the middle ground and thereby reduce the opposition ethnic parties to challenging the coalition at the ethnic 'flanks' of the political spectrum. To win votes the opposition ethnic parties devolved into an ethnic outbidding contest that resulted in their adopting more ethnically extreme positions. Since the opposition ethnic parties could mostly appeal to one ethnic group as they failed to convince the other ethnic groups to vote for them, it meant that they remain a



Above: Malaysian General Election, 2013. Image reproduced under a creative Commons License, courtesy of Firdaus Latif on Flickr.

threat to the ruling coalition only in seats with a large ethnic majority. In seats where no one ethnic group voters dominate, vote pooling would greatly advantage the ruling coalition.

From 1972 to 1995, the prevailing ethnic voting preference and vote pooling advantaged the ruling coalition National Front (BN). UMNO electoral dominance was supported by the party always winning a majority of Malay vote, by the mal-apportionment of seats that disproportionately advantaged the Malay community, and by gerrymandering the electoral system to increase disproportionately the number of seats with Malay majority relative to their electoral percentage. The Pan Malaysian Islamic Party (PAS) was only a threat to BN in Malay majority seats especially in the Malay heartland states and the Chinese dominated Democratic Action Party (DAP) a threat to BN in Chinese majority seats. For BN to

counter the electoral threat posed by PAS and DAP, the most effective way was to reduce the number of Malay and Chinese majority seats. The results of the 1999 election showed how risky the situation could be for BN in Malay majority seats when the Malay vote swung to the opposition parties. It would seem then the best strategy for BN to counter the opposition threats would be to increase the number of mixed constituencies where no one ethnic group voters dominate.

Thus the 2002 redelineation exercise "reduced the ethnic bias of the electoral system" by "replacing it with a more direct political bias in favor of the BN".³ It reduced the previously "pro-Malay bias in the electoral system" in view of the fragmentation of the Malay vote whereby BN was no longer assured of winning in many of the Malay majority seats. Conversely, the 2002 redelineation exercise "increase the weightage of mixed" constituencies to capitalize on the BN's vote pooling advantage over the Opposition. Since the 1999 election then, apart from the heavily pro-Malay gerrymandered electoral system, the BN winning formula had depended on winning the majority of Malay and Indian votes and close to 50 percent of the Chinese vote and on the opposition parties remaining fragmented and unable to overcome the cross-ethnic voting barrier.

Since the 2008 election, however, the ethnic voting pattern has changed in that a huge majority of Chinese voters, more than 50 percent Indian voters, and nearly 40 percent Malay voters have switched to supporting the Opposition. Most importantly, the opposition parties PAS, DAP and the Malay-dominated Parti Keadilan Rakyat (PKR) have formed a coalition, the Pakatan Rakyat (PR), that has successfully overcome the cross-ethnic voting barrier. The vote pooling advantage now favours the PR such that the opposition coalition defeated BN in nearly all the mixed constituencies. In the 2013 election, because of the mal-apportionment and gerrymandering strategies of creating smaller electorate-sized seats to entrench BN's electoral power, it resulted in a situation where PR won the popular vote but BN won the election.

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The 1MDB controversy in Malaysia

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ONE OF THE MOST CONTROVERSIAL ISSUES confronting Malaysia's ruling political coalition, Barisan Nasional, is the 1Malaysia Development Berhad (1MDB). Technically, the 1MDB is a private corporation wholly-owned by the Ministry of Finance, Malaysia. It was established in 2009 by converting a state sovereign investment fund, the Terengganu Investment Authority, into a federal entity. The 1MDB was assigned the role of a strategic investment company with the mission "to drive sustainable economic development by forging strategic global partnerships and promoting FDI".¹

To fulfil its mission, 1MDB has invested in two key sectors, namely power (electricity generation) and real estate. In the power sector, 1MDB has acquired three power plants at the cost of about RM12 billion and has won another RM8.1 billion greenfield power project (Project Track 3B). In the real estate sector, 1MDB has already acquired land at the cost of around RM2 billion for the building of the Tun Razak Exchange (a RM26 billion financial hub). It is also investing in Bandar Malaysia (a commercial and housing project) and a project for affordable housing in Air Itam, Penang.

The 1MDB has become a controversial issue in Malaysia mainly because of its financing aspects. These include the size and nature of 1MDB's debt as well as how it has used its funds. To date, 1MDB has borrowed to the tune of RM 41.9 billion

(in the year ending 31 March 2015). Right from the very beginning, there have been allegations of financial impropriety involving 1MDB's borrowings of US\$700 million in 2009. The media has also pointed out the high cost of borrowings and the maturity mismatch between its assets and liabilities. The latter has affected 1MDB's debt servicing ability to the extent that it sought two extensions for loan repayment in November 2013 and December 2013. With the third deadline looming in February 2014, 1MDB had sought the assistance of a local tycoon, Ananda Krishnan, to settle the RM2 billion loan owed to local banks. This has not solved 1MDB's liquidity problems completely as analysts have pointed out that 1MDB's annual debt servicing continues to exceed its cash flow.

Whilst 1MDB appears to have some liquidity problems, some have gone further by questioning its solvency. Former Malaysian Prime Minister Mahathir Mohamad has pointed out that there appears to be a gap of RM27 billion between 1MDB's total liabilities (borrowings) and the total value of its assets. Related to this problem is the lack of transparency and the consistency of information on how the borrowings have been utilized. One widely discussed topic relates to the placement of US\$2.32 billion funds (from redeemed investments) in the Cayman Islands.

Above: Frame from the Tun Razak Exchange promotional Video, publicly available to view via YouTube.

Uncertainty and speculations over 1MDB's insolvency have also raised the spectre of a government bailout. Aside from the fact that the Ministry of Finance is the sole owner of 1MDB, the government has also extended letters of support for which it could be liable for up to US\$3 billion. Subsequently, a request for a government loan of RM3 billion was rejected by the Malaysian Government Cabinet in late February 2015. However, the Cabinet subsequently approved a RM970 million loan to 1MDB two weeks later. Coinciding with this was the call by the Prime Minister Najib Razak himself and the Public Accounts Committee for the Auditor-General to probe into 1MDB's accounts.

The 1MDB's strategy forward appears to be one involving the unwinding of its assets by monetizing some of its landed assets to reduce its financial liabilities (especially short-term ones). The maturity mismatch between its assets and liabilities clearly caused some liquidity problems. This has affected its plans to list its energy assets via an initial public offering. The on-going restructuring of 1MDB assets and liabilities continue to court controversies such as the recent sale of 1MDB land to Lembaga Tabung Haji (LTH). Critics have pointed out that the land was originally bought by 1MDB from the government for RM74.20 (psf) and was sold to LTH for RM2,779 (psf). The prime minister subsequently suggested that LTH sell the land to other parties for a profit.

The 1MDB has clearly become a political liability for the Najib Administration. Critics have attempted to link 1MDB's financial woes to allegations of corruption and fraud. These have been accompanied by the media's recent exposé on the lavish lifestyle of ruling-party politicians and their family members. The negative public reactions and responses to the 1MDB issue, at least in the urban areas, have been further amplified by the rising cost of living and dissatisfaction with the implementation of the Goods and Services Tax. The political fall-out from 1MDB is still uncertain. The current government is saddled with the unenviable task of unwinding a grand investment strategy that has clearly gone awry.

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References

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