

Malaysia Election 2018. A Historic Opportunity.

On 9 May 2018, the Malaysian general election saw an unexpected win for the opposition Pakatan Harapan coalition against the Barisan Nasional juggernaut despite extensive gerrymandering. Malaysians ended UMNO's 61 years of rule, albeit with the efforts of UMNO alumni, ex PM Mahathir Mohammed, ex Deputy PM (and ex political convict) Anwar Ibrahim, and a few UMNO defectors such as ex Finance Minister Daim Zainuddin. Disgraced ex Prime Minister Najib, is effectively under house arrest as he is investigated for various financial shenanigans most notably the looting of 1MDB and the subsequent ham fisted coverup. The new government is in the driver's seat and the direction of Malaysia is in its hands.

For decades, Malaysia has been regarded with mild condescension by its more successful neighbours. A policy of affirmative action for the indigenous races have weakened them rather than toughened them. Rampant and pervasive corruption from top to bottom, from millions to loose change has turned what in other countries is a commercial lubricant to a stultifying sludge. Racial politics has polarized a potentially industrious people who might as one achieve great things. Case in point is AirAsia founded 24 years ago when Singapore Airlines was already in its 47th year . AirAsia earns an ROE of 22% to Singapore Airlines' 6.5%, yet it trades at half the valuation. Top Glove is the world's largest maker of latex gloves with 25% of global market share. Not even Apple's iPhone has that level of dominance in its industry. These pockets of enterprise have risen in spite of the government.

There is an opportunity here to realize Malaysia's potential. Momentum is of the essence; there is little time for mistakes

or prevarication.

One: Unity and sense of purpose. The PH coalition must be united behind a common cause and that is to reform Malaysia to international standards of governance, law, and development. It is imperative that mischievous or opportunist elements are purged from the new management (or old management, as the case may be. Its complicated.) No personal agendas should be tolerated, only the good of the country and the people.

Two: Corruption needs to be addressed. It is true that no country is entirely free of corruption; some manage it better than others. Corruption has to be turned, co-opted, legalized, nationalized and rationalized into a single, efficient infrastructure. Rule of law is very important as it is transparent and efficient. Investment, foreign and local, relies on confidence and on rule of law. Within this framework the usual biases to favour the elite can be built in which ensure moderation, some optical semblance of equality or fairness, but blunts criticisms of cronyism, nepotism and favouritism. Investors want to know where they stand and that the rules will not change arbitrarily and quickly.

Three: Education. This will cost money and face political inertia. Malaysia has a young population which can supply a potential demographic dividend, but it has to be enabled. The percentage of population over 65 is a mere 6% and the working age population has grown from 63% in 2000 to over 67% today. This is a tremendous resource, but it needs processing. The education system requires a complete overhaul, not incremental patches. It is faster to import the expertise and model and for the country at this juncture speed trumps parsimony. The education needs to be more flexible to adapt to the demands of the economy so Malaysia can rely more on internal human resources in future.

Four: Abolish Bumiputera policy. Set aside that Bumiputera policy is affirmative action for the majority (some 60% of the

population), that it sows dissatisfaction and disenfranchisement among the non-Bumiputera, that it is basically unfair, that it encourages justification for reactionary corruption, that it is divisive and socially risky. Affirmative action weakens its beneficiaries. Adversity breeds strength. What made Singapore great was adversity and an existential threat which inculcated a constant, low level paranoia and preparedness for more adversity, a vigilance that often antagonizes, and a drive to show the world, which often wasn't even watching, how great it was. And it succeeded. Singapore of this generation is basking rather slightly too complacently in its past success, evidence of the one of the factors behind the cyclicalality of societies. Give a man a fish and feed him for a day. Teach him how to fish and feed him for a lifetime. Threaten depleted fish stocks, drought, famine and you will be surprised by the mettle you forge.

That's a lot of words for concepts we can summarize thus:

Be united.

Be honest and just.

Get an education.

Toughen up.

The difficult part is getting everyone to sign up to it. The prize? Malaysia is a country with 31 million people and a nominal GDP of 296 billion USD, or a per capital GDP of 9800 USD, ranked 66 in the world, behind the world average of 10700 USD. Malaysia has identifiable problems with established and tested (by others) cures. Unlike some of its more developed neighbours it does not have to struggle to find the next stage of development. It just needs to fix things, to copy the solutions of others. The potential rewards of simply meeting the world average in terms of wealth and development will see a significant improvement in the welfare of Malaysians.

PS: Don't worry about the budget. Underinvestment in long cycle oil means a high chance Brent holds 80 for the next few years. In fact I would hazard to guess at least 100 from 2019. That will allow Petronas to plug the budget gap. The young population means a healthy dependency ratio which postpones the issue of the budget for at least a decade. Also, anti-corruption efforts will cut the cost of government infrastructure projects and maintenance by over half (if anecdotal evidence of the margins of rent extractors are accurate). Add to this some recovery of pilfered 1MDB money and the government can safely plug the GST gap for the next 3 years at least by which time the fiscal accommodation of the GST cut would have boosted growth.