

Malaysia: PM Muhyiddin gains a reputation for quiet competence

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EXECUTIVE SUMMARY

Having precluded the need for a Confidence vote by winning a parliamentary contest on ousting the Speaker (111-109), the Muhyiddin cabinet has successfully defeated Covid-19 (with just 4 deaths in the past 8 weeks, and a daily average of just 12 new cases in the past 7 days). With Goldman Sachs paying Malaysia US\$3.9 billion, and ex-PM Najib Razak convicted on all 7 counts, Muhyiddin will win plaudits from the voting public. After a sharp contraction in March-May 2020, exports (+8.8% YoY in June 2020) began leading a 2H 2020 economic revival. The near-term outlook for Malaysia is positive.

Prime Minister Muhyiddin Yassin has had an incredible month. First, he pulled off a parliamentary coup on 13 July by replacing the Speaker of parliament (elected by the previous PH coalition that he had ousted on 1st March 2020). Muhyiddin won that vote 111-109, thereby demonstrating that he retained majority support. Then, in rapid succession, Goldman Sachs announced on 24 July that it had agreed a settlement with Malaysia (confirmed and agreed by the Malaysian government on 27 July), and the courts announced the following day that former-PM Najib Tun Razak was guilty of all 7 charges against him, and hence must serve at least 12 years in prison.

PM Muhyiddin is also winning plaudits for dealing with the Covid-19 pandemic with quiet competence. Malaysia has successfully flattened the curve of new infections, and has had just 4 deaths from the Coronavirus in the past 8 weeks. Having thus contained the impact of the pandemic (which appeared to be raging out of control just before he became PM) Muhyiddin has built a reputation for quiet competence--although survival in office has entailed a series of sordid compromises with various corrupt members of his coalition, and attacks on journalists and Opposition MPs who attempt the slightest criticisms of this government.

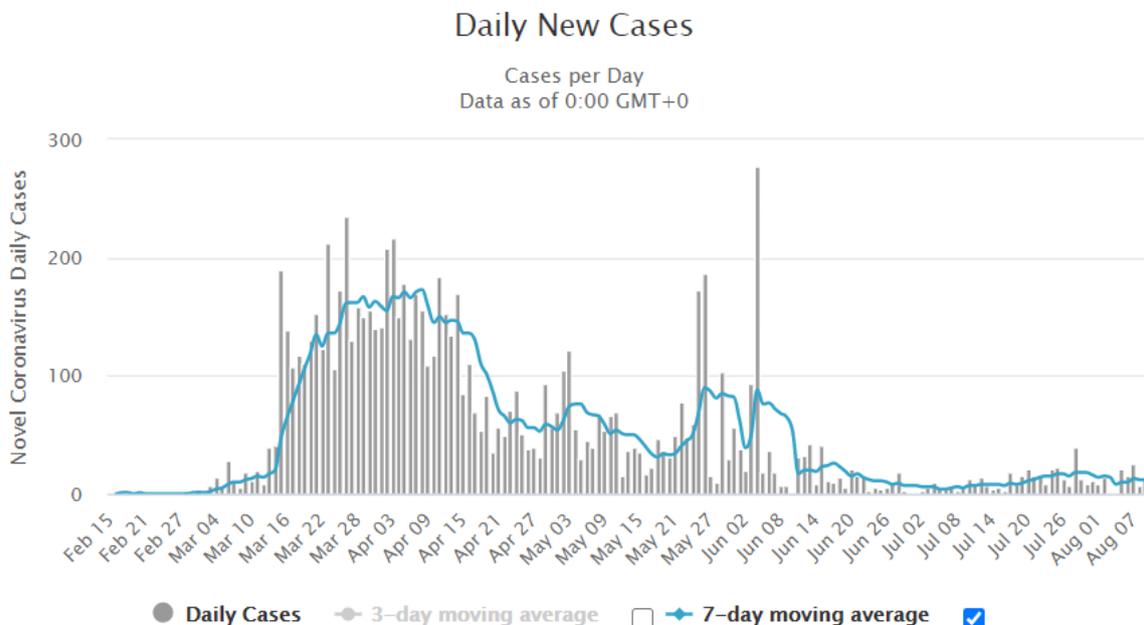
The economic impact of containing Covid is that Malaysia is well-positioned to see a robust recovery in 2H 2020. Real GDP decelerated to just 0.7% YoY growth in 1Q 2020, as the manufacturing sector succumbed to movement-restrictions imposed in March 2020. But after contracting sharply in April and May, exports rebounded to 8.8% YoY growth in June 2020. Industrial growth too is likely to have returned to modest growth in June. With the economy able to confidently return to normalcy in July, real GDP should return to solid growth in 2H 2020 despite the massive hit being taken by the tourism-facing sectors.

DETAIL

Sordid deals enabled Muhyiddin's government to survive... Originally, former PM Mahathir had brought a motion of no-confidence against Muhyiddin's government -- due for debate by mid-March 2020. But Muhyiddin used his prerogative as PM to postpone the sitting of parliament, and then was "rescued" by the imposition of movement-control-orders (MCO) by mid-March to contain the pandemic. Meanwhile, PM Muhyiddin appointed a mammoth cabinet of 70 members, giving sinecures in various government-linked companies (GLCs) to MPs from his unwieldy coalition who couldn't be accommodated in the Cabinet. In June 2020, money laundering charges against Riza Aziz (step-son of ex-PM Najib) were quietly dropped. And the ex-chief minister of Sabah (belonging to the UMNO party that Muhyiddin's coalition depends crucially upon), Musa Aman, was acquitted of 30 corruption and 16 money-laundering charges.

...but he now has a (narrow) working majority in parliament. Muhyiddin also astutely refrained from appointing a Deputy Prime Minister, instead appointing 4 Senior Ministers (similar to the Indonesian concept of "Coordinating Minister", now used in Singapore too) and 5 Ministers in the PM's Department -- accommodating the three main parties in his coalition (his own PPBM, the former long-ruling party UMNO, and the Islamist PAS) and providing ample representation to the key parties from Sarawak and Sabah. These manoeuvres enabled him to retain a thin majority in parliament -- evident on 13th July, when Muhyiddin ousted the Speaker of the Dewan Rakyat (parliament) by a narrow 111-109 vote.

Daily New Cases in Malaysia



Source: worldometers.info

PM Muhyiddin's cabinet has gained plaudits for its competence in containing the Covid-19 pandemic. After a big surge in March, which was countered by the imposition of movement control orders (MCO), which continued into April and May 2020, Malaysia's curve of new cases flattened noticeably in May 2020 -- allowing the MCO to be withdrawn across most of the country in June 2020. Of the 9083 patients afflicted by Covid-19 in Malaysia, only 125 died, 8784 have recovered, leaving just 174 active infected persons on 10th August 2020 (just 5 of them "critical"). With an average daily rate of just 12 new cases in the past 7 days, Malaysia has successfully contained the novel Coronavirus.

On July 24th, Goldman Sachs agreed to pay a total of US\$3.9 billion to the Malaysian government, of which US\$2.5 billion would be a penalty for its past crimes and misdemeanours (without admitting guilt), and US\$1.4 billion would be in the form of guaranteed payments from the sale proceeds of assets seized during the investigation of the 1MDB imbroglio. Former PM Najib Razak had created an entity called 1MDB -- ostensibly for the development of Malaysia, but mainly as a slush fund to finance UMNO's 2013 election campaign. 1MDB raised US\$6.5 billion in bonds before the 2013 election; while the bonds carried a reasonable coupon of 4%, Goldman Sachs was paid a gargantuan fee of 9% for arranging the sale of the bonds. This fee was 25-100 times what should normally have been paid, and Opposition leader Anwar Ibrahim strongly protested the exorbitant fee paid to Goldman Sachs. On 3rd July 2015, it became clear that much of this money had been funnelled back into Najib's personal bank account -- which received a sum of US\$683 million on that day. The then-DPM, Muhyiddin, demanded that the PM should either sue the Wall Street Journal if the story was untrue, or (if it was true) explain how and why such a large sum had been paid to him. Consequently five years ago (on 29 July 2015), Muhyiddin was forced out of Najib's cabinet, beginning a process that culminated in UMNO's defeat in the 2018 election.

Muhyiddin's government has been able to force a reasonable settlement upon Goldman Sachs much sooner than any other government would have succeeded in doing. With former investment banker and deal-maker Tengku Zafrul Aziz (ex-CEO of CIMB, and ex-head of Maybank's investment bank) as Finance Minister, negotiations proceeded quickly and a reasonable deal was done. Former PM Mahathir continues to insist that Goldman should have been obliged to pay US\$9.6 billion, but there was no guarantee of anything close to that sum being agreed. That Goldman has agreed to pay a substantial sum of US\$2.5 billion in penalties is a worthwhile victory for Malaysia. Tun Mahathir is right that the other US\$1.4 billion isn't really a payment from Goldman Sachs, since it will be paid out of assets already seized by the US Department of Justice (and Goldman Sachs is only providing a guarantee that at least this amount will be paid for Malaysia's share of those assets). The large sum of money will help to pay the coupons on 1MDB bonds, and provide an additional cushion of money to plug holes in the fiscal accounts during the 2020 recession.

The MCO resulted in a severe downturn in March-May 2020, but a strong rebound began in June. Industrial production declined 4.9% YoY in March, 32% YoY in April and 22.1% YoY in May 2020, and exports declined 4.7%, 23.3% and 25.5% YoY respectively. But exports rebounded to grow 8.8% YoY (in ringgit terms) in June 2020, signalling the start of an economic turnaround -- and industrial production declined only 0.4% YoY in June 2020. The tourism-facing segments (which account for nearly 15% of GDP) will continue to suffer grievously, but the cyclical components of the Malaysian economy should recover strongly in 2H 2020, capitalizing on the government's success in combating the novel Coronavirus. We are bullish on Malaysia in the near term.