

PM seen stalling on reform after disappointing vote
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Prime Minister Najib Abdul Razak will likely put key economic reforms on ice as he tries to rebuild voter support after his ruling coalition recorded its worst performance in 24 years in a local election in a key stronghold.

Bets are largely off for a snap general election to take place this year, with Najib expected to rethink his strategy of promoting inclusive growth in the Muslim-majority multi-cultural nation to win back the minority vote, analysts said.

In Saturday's state poll, Najib's ruling National Front (BN) retained control of its stronghold Sarawak, which accounts for a fifth of its parliamentary seats, but the opposition more than doubled its seat tally as ethnic Chinese mostly voted against the government.

Structural economic changes such as further scaling back fuel subsidies, introducing a goods and services tax and reforming a decades-old race-based policy would be relegated in Najib's list of priorities for now, analysts said.

After the outcome in Sarawak, Najib will need a general election mandate before making any big moves," said Ibrahim Suffian (right), director at the independent opinion polling firm Merdeka Center.

"Enacting fuel subsidy cuts and a goods and services tax will just add to the political issues that he will have to deal with ahead of the general election."

The opposition won 15 seats in the 71-seat state legislature, giving the ruling coalition a two-thirds majority.

But it was its worst performance in Sarawak since 1987 when the coalition won only 25 out of 45 seats.

In the last state election in 2006, the opposition won only seven seats. On Saturday, the ruling National Front's losses came mainly from areas dominated by ethnic Chinese, with its main Chinese party in the state losing 13 of the 19 seats it contested.

Little changed

Financial markets are expected to be little changed on Monday as past state elections have had minimal bearing on trade, although the expected delay in introducing reform could reinforce the stock market's laggard position versus its neighbours.

Najib took office in 2009 pledging to woo investment, widen the country's tax base with a goods and services tax and cut the country's subsidy bill and budget deficit which hit a 20-year high of 7 percent of gross domestic product in 2009.

Once a magnet for foreign investment, Malaysia has lost much of its shine as its neighbours move faster in implementing reforms amid strong economic growth.

In a March report by Bank of America Merrill Lynch, Malaysia ranked as the second least

popular market after Colombia among global emerging market fund managers and tied with India for least favourite among Asia-Pacific asset managers.

Analysts are uncertain about the timing for the next general election after the Sarawak poll although most agree that Najib was unlikely to call one this year, as he might have if he had won more decisively in Sarawak.

The Taib Question

The next general election is not due until 2013.

Asked whether the state poll would be a barometer for calling a general election, Najib was quoted by local media as saying: "No, this is only at state level. There are other things to consider at Sabah and the peninsula as well."

Apart from highlighting ethnic minority unhappiness towards the government, the Sarawak poll has thrown up other political headaches for Najib including the retirement of the state's long-serving chief minister Abdul Taib Mahmud.

The ruling coalition campaigned on a promise of Taib's impending retirement to placate voters disenchanted with the state leader's alleged corruption and nepotism. But analysts say

Taib's departure could create a leadership vacuum and increase political tensions ahead of national polls.

The poll result is also expected to help revive the People's Alliance (Pakatan Rakyat) opposition headed by former deputy premier Anwar Ibrahim.

The Alliance has lost some traction of late as Anwar battles a lengthy court case involving charges that he sodomised a former male aide and more recently, that he was caught on tape having sex with an unidentified woman. Anwar has denied both allegations.

"With the opposition's gains, a new political configuration of politics has emerged, an important factor for Najib to consider before calling for the next general elections," said Johan Saravanamuttu, visiting senior research fellow at the Institute of Southeast Asian Studies in Singapore.

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