

**Conservative backlash threatens PM's reforms**  
**Malaysiakini.com**  
**June 23, 2010**  
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A growing assertiveness by the country's majority Malay Muslim population which fears its economic privileges are under threat has added to pressures on a government struggling to deliver pro-market reforms.

Prime Minister Najib Razak pledged to liberalise the economy and has delivered measures such as granting new bank licences but his credibility has been dented by his inability to cut subsidies and trim privileges for ethnic Malays to boost competitiveness.

"If Malaysia is seen as becoming radical, then it doesn't help investor confidence. It points to a sense of political instability which in turn gives rise to policy uncertainty," said Kit Wei Zheng, Asia director of analysis at Citigroup.

azlanThe latest policy flip-flop saw the government approve and then defer the issuance of a sports betting licence to a company set to be controlled by Berjaya Corp Bhd under pressure from an increasingly vocal Islamist opposition.

At the same time, a conservative Malay pressure group intervened in a RM5.02 billion bank takeover bid by a group headed by an ethnic Chinese businessman, saying the bank should be run by owners who can promote Malay economic privileges.

"Najib needs to show reforms to drive the economy and allow the coalition to retain power, but he's seeing increasing assertiveness by the Malay which is making his job more difficult," said Ibrahim Suffian, director at the independent polling outfit Merdeka Center.

Ethnic Malays are the main source of support for Najib's United Malays National Organisation (Umno) and the opposition Pan Malaysian Islamic Party (PAS).

NONEWhen news broke of the betting licence approval to a company controlled by billionaire ethnic Chinese Vincent Tan, the move was denounced in protests after Muslim Friday prayers with PAS saying it would help organise a 100,000-strong protest in July.

Malaysia is home to Asia's largest publicly traded casino operator Genting which recently opened a RM15 billion resort and casino in Singapore.

The government allows non-Muslims to gamble but forbids it for Malays who by definition are Muslims, with Islamic moral police squads occasionally arresting Malays in gambling outlets.

Race, religion looms over reforms

Both Umno and PAS have touted their Islamic credentials to woo Malay votes. Three Muslim women were caned in February for the first time under strict Islamic laws, signaling a trend that is increasingly worrying to non-Muslims.

PAS backs syariah punishments for Muslims but toned down its views after allying with mainly ethnic Chinese secularists and urban reformists led by former deputy premier Anwar Ibrahim.

Concerns over the marginalisation of the country's minorities and graft contributed to record losses for the government in the 2008 elections, hastening the departure of Najib's predecessor.

Najib has pledged to reach out to all ethnic groups to rebuild support for his ruling coalition but ethno-religious tensions rose amid a row over the use of the word "Allah" by Christians to describe God.

Political uncertainties have already begun to weigh on foreign investment with net portfolio and direct investment outflows reaching RM195 billion in 2008 and 2009 according to official data.

While money has flowed into the bond market recently according to central bank data, little has flowed into equities.

Najib's big gamble

Najib has rolled back parts of the New Economic Policy (NEP), a pro-Malay affirmative policy in place for decades, scaling back a 30 percent equity requirement for Malays in firms being listed.

But proposals to water down preferential economic rights for Malays and other indigenous groups collectively known as bumiputera were attacked by Malay pressure groups such as Perkasa whose supporters include many Umno members.

"It suggests that the reform agenda is driven by political as well as economic needs. Politically unfriendly measures which make economic sense may not be implemented as easily," said Morgan Stanley in a recent research note.

Perkasa has now started to try to influence corporate policy, criticising the central bank's rejection of a bid by lender Affin Holdings, part-owned by the Malaysian Armed Forces Pension fund, to enter merger talks with larger rival EON Capital.

The rejection leaves Hong Leong Bank, the country's sixth-largest lender controlled by ethnic Chinese billionaire Quek Leng Chan, as sole bidder for EON's banking assets.

"What more do they (the Chinese) want? It's in the national interest that we balance bumiputera participation in the banking sector and this merger between Affin and EON Capital can be the instrument," said Perkasa head Ibrahim Ali.

Despite promises of reform, little has actually happened with the government stalling on policies such as cutting subsidies and introducing a goods and services tax.

"This does affect Malaysia's attractiveness to some extent because investors are still waiting for signals on whether the government is able to push through reforms despite political opposition," said Citigroup's Kit.

Analysts say Najib's focus on the Malay vote ahead of the next general election due by 2013 may shore up his support in the short term but risks problems later on.

"Najib is playing safe but he's fighting a losing battle in the medium- to long-term because if his promises of reforms begin to ring hollow, he may in the end fail to hold on even to the Malay vote," said Ong Kian Ming, political analyst at UCSI university in Kuala Lumpur.

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