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, thereby ensuring that voting choice becomes bound by ethnicity. When voting choice becomes circumscribed by ethnicity, it reduces competition for electoral support within ethnic groups and not across ethnic groups.

“In a truly multi-ethnic nation such as Malaysia, “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.”

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.”

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), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC) 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 opposition 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 “franks” of the political spectrum. To win votes the opposition ethnic parties devised an ethnic contentious 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 threat to the ruling coalition only in seats with a large ethnic Malay majority.

The 1MDB controversy in Malaysia

The 1MDB has clearly become a political liability for the Najib Administration. Critics have attempted to link 1MDB’s insolvency with the Malaysian Government Cabinet in late February 2015.

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 continues to court controversies such as the recent sale of 1MDB land to Lembaga Tabung Haji (LTH).

“1MDB 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.”

Uncertainty and speculations over 1MDB's involvency 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 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 ongoing 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 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.”

While 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.