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2016: Challenging Year Ahead for Najib

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Synopsis

Najib's viability as PM in 2016 will be dependent on his ability to manage the current economic problems and overcome political challenges.

Commentary

2016 will prove to be an important year for Malaysia's Prime Minister Najib Razak both in the economic and political realms. While his critics had dismissed the PM's chance for surviving the challenges that he faced in 2015, Najib has shown his resilience through the adept employment of a carrot and stick approach. It will not be surprising if he emerges at the end of the year with a more consolidated position.

For UMNO members, the PM's performance this year will be crucial for the party. While the PM has shown his ability to unite UMNO, he remains largely unpopular with the Malaysian public. The Merdeka Centre's survey in October 2015 showed that only 23% of Malaysians are happy with the government's performance. It is not likely that these numbers have shifted significantly upwards. Najib will need to demonstrate that he is able to win back the support of Malaysians especially the Malays given that UMNO is now focused on winning the Malay votes to secure victory in the 14th General Election that must be called by 2018.

Worst challenge of 2015

The PM started the year facing the worst challenge of his political career over the debt-ridden state fund 1Malaysia Development Berhad (1MDB). At the height of the political scandal in July, Najib faced allegations of corruption over reports that he received RM 2.6 billion from 1MDB in his personal accounts. He also dealt with

allegations of mismanagement over the hefty RM 42 billion debt acquired by 1MDB in the short period since he established it in 2009.

The allegations arose amid a weakening economy and a falling currency, plaguing Najib with a serious crisis of confidence as foreign investors pulled out of the stock market, Malaysians struggled with inflationary pressures, and his political opponents and critics rallied to oust him from office. Six months on though, Najib seemed to have weathered the political storm and strengthened his position within the ruling UMNO following a highly successful performance at the party's general assembly meeting.

The PM dismissed his deputy, Muhyiddin Yassin and replaced other dissenters in the party leadership, rallied UMNO members around him and promised to focus on national issues that are of concern to the country. Najib's ability to resolve the current economic problems and overcome political challenges will determine whether he will be an asset or liability for UMNO and hence will decide whether he will survive as prime minister.

Resolving the 1MDB Debt Issue

At the UMNO General Assembly last month, Najib presented a credible case to his supporters that it was time to move forward from 1MDB. In interviews on national television and speeches to UMNO members, Najib maintained that he had broken no laws in accepting a political donation into his personal account for UMNO's use. He highlighted too that the existence of the donors was verified independently by the Malaysian Anti-Corruption Commission. He also reiterated the debt reduction plan for 1MDB that was already underway, maintaining that critics had politicised the issue needlessly when the indebted fund actually held assets valued more than what it owed.

Last month, 1MDB sold its power plants under Edra Global Energy to a Chinese firm, which reduced its debt load by RM 17 billion. 1MDB also has plans to finalise a sale of the Bandar Malaysia property project in Kuala Lumpur, valued at RM 11 billion. Even when the market was most jittery in July, with the massive foreign capital outflows on expectations of a US interest rate hike and the ringgit's free fall, Malaysia's credit rating was never downgraded, and it has maintained a stable outlook.

Investors had been primarily concerned over political instabilities and 1MDB's ability to repay its debts, which constituted approximately 4 % of Malaysia' GDP. Now with the reduction of 1MDB's debt load and Najib's apparent consolidation of political power, there is some level of market optimism while the ringgit strengthened from October to November. This could help to somewhat ease the fiscal pressures from an expected revenue shortfall due to oil price declines in 2016.

Economic and Domestic Challenges

Despite the easing of 1MDB's debt woes, Malaysia will still have to contend with external pressures from a weakening global economy: oil and commodity prices are

not projected to improve in 2016; China's economic slowdown portends a decreased demand for Malaysian exports; and a weak ringgit faces a strengthening US dollar.

These external pressures have already resulted in inflation in Malaysia, raising the cost of imported goods and overall cost of living. Malaysia could likely go into the next general election under dismal economic circumstances. Protracted economic problems can easily be politicised by Najib's political opponents.

Najib has managed to diminish the impact of the 1MDB allegations by taking quick actions to unwind its debt load. This has earned him leadership credibility, which he had lost during the height of the scandal. Najib's handling of the economic challenges ahead will factor into whether 1MDB can become a point of contention yet again. This could potentially weaken Najib's political standing in his own party, as his party members' support could be conditional on his perceived strength to win in the next general elections.

Sarawak Elections

One of the immediate objectives for Najib is to secure a convincing win at the upcoming Sarawak state elections. The highly popular Sarawak Chief Minister, Tan Sri Adenan Satem has distanced himself from the PM and UMNO, preferring to make the elections about his performance as CM. In fact, Adenan was quoted as saying that he needed a stronger mandate from Sarawakians to face Kuala Lumpur and secure Sarawak's interests. Similar challenge is not expected from Sabah. The Sarawak election will be watched by many within UMNO as a barometer of how much the PM's unpopularity can affect the outcome of the election especially in the urban areas.

Overall Najib has entered 2016 in a sturdier position than he was in at the beginning of 2015. His challenge is to build a stronger following in the upper ranks of UMNO to prepare BN for the next federal election to be called by 2018.

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