

CHAPTER 3:
OVERVIEW OF POLITICAL EVENTS AND NATIONAL BUDGET
ANNOUNCEMENTS IN MALAYSIA

The focus of this research study is on the impact of political events and national budget announcement on the local stock market. For the purpose of this project, a set of 38 discrete political events with different dates of occurrence which cover a time period of three decades starting from 1981 have been selected. Though a longer perspective is useful in providing a broader view of the picture, this study will not cover events prior to 1981, except for occasional reference and summary during the analysis. The scope of the selected political news is limited to government-oriented announcements which can be broadly categorized into six major types: Dissolutions of the Parliament, General Elections, party elections, the changing of administration leadership, the reshuffle of cabinet and extraordinary political events. This study, however, does not include news from the opposition party. The second part of the research will be dealing with the national budget announcements which broadly include some of the major information such as the country's GDP, balance of payment, fiscal policy, and tax policy. Fifteen years of national budget from 1998 to 2011 have been collected for testing and analysis on their impact on the Malaysian market reactions.

3.1 Political events from 1981—1990

The first event of this study dates back to 15 May 1981 when Hussein Onn, the then Prime Minister of Malaysia, first announced his intention to resign due to health problem (Mean, 1991) and would pass the Premiership to Mahathir Mohamad. Then on 26 June 1981, the 36th UMNO Election witnessed the hard-fought contest between Tengku Razaleigh Hamzah, a wealthy businessman and Musa Hitam for the deputy presidency of UMNO, where Musa Hitam defeated Tengku Razaleigh. It was widely believed that the new administration led by the 2-Ms would seek mandate from the people before the constitutional election deadline arrived (Mauzy, 1982). As expected, the 6th National Election was set on 22 April 1982 and it was the first national election after Mahathir took over the leadership of the country. As in every other elections before it, the National Front (Barisan Nasional) went into the election with powerful strength and won the election overwhelmingly with 103 seats as compare to 94 seats in 1978 (Mauzy, 1982).

The Malaysian Chinese Association (MCA), the Chinese representative party in the tripartite ruling coalition, plunged into a crisis of “phantom membership” on 19 March 1984 when the then Acting President Neo Yee Pan dismissed Tan Koon Suan as Chairman of the Wilayah Persekutuan Liaison Committee and Lee Kim Sai as Selangor Liaison Committee Chairman and MCA Youth chief. The Chairman of the Disciplinary Board, Mak Hon Kam, further expelled 14 top party leaders, including Dr. Ling Liong Sik who was then a Central Committee member. About two months after the crisis, the 37th UMNO Election took place on 25th May 1984 and again, Musa Hitam defeated

Tengku Razaleigh Hamzah for the second time for the Deputy Prime Minister Post. Though defeated, Tengku Razaleigh was retained by Mahathir as the Minister of Trade and Industry during the major cabinet reshuffle on 14 July 1984 and the appointment of Daim Zainuddin, another wealthy business figure in Malaysia, as the finance minister was a big surprise.

In 26 February 1986, Musa Hitam resigned from his Deputy Prime Minister Post and was succeeded by Ghafar Baba on 7 May 1986. Soon in August 1986, Malaysia had its 7th General Election and with no big surprise, Barisan National (BN) won a victory of 148 out of 177 seats (Nohlen et al., 2001). Then, in 1987 comes the controversial 39th UMNO Election when this time Tengku Razaleigh and Musa Hitam teamed up to challenge Mahathir's leadership as they were dissatisfied with autocracy in his leadership. Though both Tengku Razaleigh and Musa Hitam were predicted to win the Presidential and Deputy Presidential Posts, both lost to Mahathir and Ghafar Baba by a narrow margin of 43 and 40 votes respectively (Yusoff, 2001). With great dissatisfaction on the results, Tengku Razaleigh later left UMNO and formed Semangat 46 party to challenged UMNO. In October the same year, the "Operation Lalang" was carried out by the Malaysian Police to crack down on opposition leaders and social activists. 106 people were arrested under the Internal Security Act (ISA) and the licenses of two dailies, The Star and the Sin Chew Jit Poh and two weeklies, The Sunday Star and Watan were revoked. This event shook the stock market, causing the KLCI plunged by about 12% the next day. The National Elections in 1990 witnessed the difficult infighting within the Malay community, whether this time the ruling coalition, Barisan National, was

challenged by Tengku Razaleigh Hamzah's party S46, as well as MCA internal contestation caused by perennial divisive leadership disputes between Lee Kim Sai and Lim Liong Sik (Mehden, 1991). Though bitterly fought, the Front managed to win 127 seats out of 180 at national level and secured two-thirds majority in Parliament (Mehden, 1991).

3.2 Political events in the 1990s

Another round of UMNO internal division happened in the late 1993 when Anwar Ibrahim brought his Vision Team to stand openly against the incumbent deputy president Ghafar Baba, defeated and replaced him on the party's general assembly (Chin, 1996). The ninth general election was held in April 1995. Despite the prediction that Barisan national would face stiff competition from three states, the ruling coalition won a landslide victory where BN won 162 out of 190 parliament seats. The results were by far the best under the Mahathir's leadership since he stepped up as the PM of Malaysia in 1981 (Chin, 1996).

On 2 September 1998, one day after Mahathir announced the pegging of Malaysian currency to US dollar at 3.8 ringgit to a dollar, Anwar Ibrahim, the incumbent deputy Prime Minister, was sacked to the Malaysia's surprise. Interestingly, the market bounced and stated a 12.14% increase in return, which showed a completely different reaction when return slumped at 13.28% the day before when Mahathir imposed the strict

currency control.¹ This event had created tremendous impact to the stock market and this was reflected in the increasing stock return of up to 22.46% three days after.

Under the political unrest since the removal of Anwar Ibrahim and the residual frustration of BN managing the 1997 financial crisis, the 10th National Election then took place on November 29, 1999. The election results were, however, not much different from the past elections where BN continued to rule and the opposition party continues to oppose. Nonetheless, UMNO lost a substantial proportion of votes to its rival and some of the issues, including the fairness of the electoral procedure and the reliability of the outcomes, had been questioned by the opposition parties (Weiss, 2000).

3.3 Political events in the new millennium

Oct 31, 2003 was a new milestone of Malaysian political history as it witnessed the passing of Premiership baton from Mahathir to Abdullah Ahmad Badawi, the fifth Prime Minister of Malaysia. It is widely believed that though Abdullah has inherited positive achievements such as a good infrastructure, a growing middle class and stable ethnic relationship from Mahathir, he needs to further deal with the negative residual impact from the Mahathir era which includes budget deficits, cronyism, corruption and soured relationship with several countries (Ooi, 2005).

General impression on Abdullah's administration was quite well as this was justified during the 11th National Election conducted on March 21st, 2004, where the ruling coalition secured 198 out of 219 seats in Parliament and increased its popularity of

¹ Refer FTSE Bursa Malaysia Kuala Lumpur Composite Index

support from 56.5% in 1999 to 63.8% in 2004 (Liow, 2005). As Liow (2005) points out, this landslide victory was mainly attributable to Abdullah's personality and policies, as well as many shortcomings in opposition strategies.

Since 1969, the Malaysian politics was dominated by the ruling coalition after winning overwhelmingly in almost each national election (Lim & Har, 2008). Things seemed to start changing when the 12th National Election took place on March 8, 2008. The opposition coalition of PKR, DAP and PAS succeeded in winning a total of 82 seats in Parliament and 196 state seats. The opposition coalition has also won the majority State seats to rule the states of Kedah, Penang, Perak, Selangor and Kelantan (Lim & Har, 2008). This so-called "Political Tsunami" has remarkably hit the market and caused a plunge of 9.5% on the KLCI on the first trading day after the election. Soon after the election, the Abdullah officially announced his intention to resign on 8 October. He then officially tendered his resignation letter on the 2 April 2009 and was succeeded by Najib Razak as the 6th Prime Minister of Malaysia on 3 April. One year after Najib came into power, he reshuffled his cabinet on 1 June 2010 in aiming to stabilize his coalition and boost support from the minority ethnic. Ong Tee Kiat, the former MCA President, was dropped from the cabinet with Chor Chee Heung being promoted to Housing and Local Government Minister.² The reshuffle also involved the appointment of Khong Cho Ha as the Transport Minister and six other deputy ministers. The new appointment was seen by many as the settlement of MCA tussle for power for the past 18 months.

²*The Star*, 2 June 2010

On July 9, 2011, a big scale rally was organized by BERSIH 2.0 to push for a thorough reform of the electoral process in Malaysia. BERSIH is an organization formed in July 2005 comprises political parties as well as NGOs in order to push the reform of the electoral procedure in Malaysia. The BERSIH 2.0 with slogan “Walk for Democracy” is basically a continuation of BERSIH 1.0 which took place in November 2007 with the objective of voicing out the demand for clean and fair election.³ However, dissatisfied with government and Election Commission’s commitment in carrying out electoral reform, the steering committee of BERSIH would hold the BERSIH 3.0 rally nationwide on 28 April 2012.

Table 3.1 summarizes the timeline of the selected political events from 1981 to 2011

Table 3.1: Overview of selected political events for the period 1981—2011

	Events	Year	Date of events	Remarks
1	Hussein Onn announced Mahathir to be the 4 th PM	1981	15/5/1981	15 May 1981—Hussein Onn announced at Johor Bahru UMNO division his intention to resign 28 June 1981—announced at UMNO General Assembly 18 July 1981—New Cabinet of Mahathir was announced. Musa Hitam was DPM
2	The 36 th UMNO Election	1981	26/6/1981	Hard-fought between Tenku Razaleigh Hamzah and Musa Hitam for the deputy presidency of UMNO
3	Announcement of the 6 th National Election, 1982	1982	29/3/1982	Parliament and 11 other state assemblies dissolved on 29 th Mar 1982
4	The 6 th National Election—announcement of results	1982	22/4/1982	Mahathir’s first national election after taking the country’s premiership. BN won overwhelmingly.
5	MCA Crisis	1984	19/3/1984	Tan Koon Suan was dismissed by the Acting President Datuk Dr. Neo Yee Pan as Chairman

³ BERSIH official webpage <http://bersih.org>

				of the Wilayah Persekutuan Liaison Committee. Datuk Lee Kim Sai' position as Selangor Liaison Committee Chairman and MCA Youth chief was stripped off, following an MCA crisis, sparked off by phantom membership. Datuk Mak Hon Kam, Chairman of the Disciplinary Board, further expelled 14 top party leaders.
6	UMNO election 1984	1984	25/5/1984	Again, Musa Hitam defeated Tengku Razaleigh Hamzah for deputy presidency
7	Major Cabinet Reshuffle	1984	14/7/1984	Tengku Razaleigh Hamzah was retained as Minister of Trade and Industry. Daim Zainuddin was brought in as Finance Minister
8	MCA Party election 1985	1985	24/11/1985	A party election was held and Tan Koon Swan became its new President. Culmination of business and politics in MCA
9	Musa Hitam resigned as DPM	1986	26/2/1986	The DPM post was succeeded by Ghafas Baba
10	Ghafar Baba appointed as DPM	1986	7/5/1986	-
11	Announcement of the 7 th National Election, 1986	1986	19/7/1986	-
12	The 7th National Election, 1986—Announcement of results	1986	3/8/1986	BN won 148 out of 177 seats
13	UMNO Election 1987	1987	24/4/1987	Tengku Razaleigh challenged Mahathir for UMNO presidency.
14	Operation Lalang	1987	27/10/1987	Operation Lalang (also refer to Weeding Operation) was carried out on October 27, 1987 by the Malaysian police to crack down on opposition leaders and social activists. 106 persons had been arrested under the Internal Security Act (ISA) and the revoking of the publishing licenses of two dailies, The Star and the Sin Chew Jit Poh and two weeklies, The Sunday Star and Watan
15	Announcement of The 8 th National Election, 1990	1990	4/10/1990	-
16	The 8th National Election—announcement of results	1990	21/10/1990	This election witnessed a difficult infighting within Malay community as well as MCA internal conflict. BN managed to secured two-thirds majority in Parliament.
17	Ghafar Baba officially resigned as DPM	1993	15/10/1993	Ghafar Baba was challenged by Anwar Ibrahim and his Vision Team
18	Anwar Ibrahim officially	1993	1/12/1993	-

	appointed as DPM			
19	Announcement of the 9 th National Election, 1995	1995	6/4/1995	Economy was booming
20	The 9th National Election, 1995—results announcement	1995	25/4/1995	BN won 162 out of 190 parliament seats. By far the best results under the ruling of Mahathir.
21	Removal of the deputy prime minister, Dato Sri Anwar Ibrahim	1998	2/9/1998	Anwar lost his position as DPM and Finance Minister
22	Cabinet reshuffle 1999	1999	20/5/1999	-
23	Announcement of the 10 th National Election, 1999	1999	10/11/1999	Banking Industry yet to recover from the 97 financial crisis; banks undergone forcible mergers
24	The 10th National Election, 1999—announcement of results	1999	29/11/1999	BN won the election. However, the fairness of the electoral procedure and the reliability of the outcomes had been questioned.
25	Announcement of resignation of the 4 th prime minister, Tun Dr. Mahathir Mohammad	2002	22 June 2002	The announcement shocked the whole country. It marks the end of 22-years Mahathir's political regime.
26	Abdullah Ahmad Badawibecame the 5 th PM of Malaysia	2003	31/10/2003	A new political regime was born under Abdullah Ahmad Badawi (new reformist)
27	Announcement of The 11 th National Election, 2004	2004	4/3/2004	-
28	The 11th National Election, 2004—Results announcement	2004	21/3/2004	BN won landslide victory. Popularity of support increase from 56.5% to 63.8%
29	Bersih 1.0 rally	2007	10/11/2007	Campaign urging for electoral reform precipitated by allegation of corruption in election system.
30	Announcement of the 12 th National Election, 2008	2008	13/2/2008	-
31	The 12th National Election, 2008—announcement of results	2008	8/3/2008	BN did not get 2/3 majority of votes; worst election results for BN in decades. Was called "Political Tsunami")
32	Announcement of Resignation of the 5 th prime minister, Dato Sri Abdullah Ahmad Badawi	2009	8 Oct 2008	Resignation was probably caused by pressure from various parties as a consequence of bad results from the 2008 elections
33	Najib became the 5th prime minister, Dato Sri Abdullah Ahmad Badawi	2009	3/4/2009	-
34	MCA Election 2010	2010	28/3/2010	Chua Soilek became the President of MCA

35	Reshuffle of Cabinet	2010	1/6/2010	Najib reshuffled cabinet
36	1Malaysia programme	2010	16/9/2010	1Malaysia is an on-going programme designed by Malaysian Prime Minister Najib Tun Razak on 16 September 2010, calling for the cabinet, government agencies, and civil servants to more strongly emphasize ethnic harmony, national unity, and efficient governance.
37	Announcement of Bersih 2.0 Rally	2011	26/5/2011	26/5/2011—Press release to announce a rally on 9 July 2011 19/6/2011—Official Launching of Bersih 2.0
38	Bersih 2.0 Rally “Walk for democracy”	2011	9/7/2011	A demonstration as a follow-up of Bersih 1.0 rally in 2007

3.4 Overview of the National Budget announcements in Malaysia (1998—2012)

Malaysian National Budget 1998 was announced on October 17, 1997, three months after the disastrous financial crisis burst out in Asia. Despite facing the challenges from the stock market and currency turmoil, the sound economy fundamentals gave rise to the 10th consecutive good year where GDP was estimated to reach 8% in 1997. The current account deficit had also decreased to state at 5% of GNP (1996: RM12.3 billion; 5.2% of GNP). Overall, the budget 1998 emphasized on strengthening economic fundamentals and stock markets; maintaining growth sustainability; continuing on the effort of economy liberalization; and continuing with social development. To help reduce financial burden of private sector, the corporate tax rate was reduced from 30% to 28%.⁴

Malaysia's 1999 Budget announced on October 23, 1998 is continued to be expansionary in fiscal policy and pro-business despite the negative impact from the crisis to local economy which brought the GDP growth down to an estimated 4.8%. The balance of

⁴ Malaysian National Budget 1998

payment, however, was a surplus of RM20 billion or 7.7% of GNP and external reserves had improved to US\$22.99 billion. The 1999 Budget strategy is targeted to stabilize the financial market and the value of Ringgit and at the same time revive economic activities from the outrageous crisis. Besides that, financial sector will be restructured and balance of payment will be further enhanced.⁵

As the country slowly recovered from the recession, Malaysia's Budget 2000 announced on 29th October 1999 aimed to continue its expansionary fiscal policies to help sustaining growth. GDP is expected to grow 4.3% overall this year whereas other growing sectors include manufacturing, agriculture, and services while the construction sector will see a contraction of 3.6%. The Budget 2000 Strategy stays to focus on recovering and revitalizing economic growth and further strengthening competitiveness and resilience of the country as well as transforming servicing sector into a leading economic growth sector.

The focus of Budget 2001 emphasizes on the need to sustain economic growth and to identify the new growth initiatives. Among the new growth sectors where resources and tax incentives will be given to help accelerate growth include the information and communications technology and venture capital. This budget also saw the effort of the government to attract Malaysian Expatriates home by imposing various tax incentives. First, tax exemption is given for income remitted within two years from the applicant's arrival date. Besides, tax exemption is also given to personal effects brought into Malaysia including two cars registered in the country of residence.

⁵ Malaysian National Budget 1999

In the budget 2002 presentation, the Prime Minister again stressed the importance of the strengthening the nation's economic growth. With the worsening of global and US economies, an addition of RM4.3 billion was approved for public expenditure in 2001. For 2002, the Prime Minister proposed an amount of RM100.52 to be included into the budget 2002, a 10.4% increase as compare to 2001. Although the government would like the private sector to resume its role as the main catalyst of economic growth, there is no intention for the government to reduce the corporate tax.

In order to further enhance growth further, the budget 2003 focuses on 4 strategies: (1) Increasing domestic investment with growth potentials (2) Exploring the niche area in services, agriculture and manufacturing sectors (3) Strengthening public sector finance and improving efficiency of civil service (4) Promoting a high moral value society. Corporate tax rate was reduced from 28% to 20% for Small and Medium Scale Industries (SMI) in order to promote domestic investment. To assist companies to reduce cost of doing business, income received by non-resident for rendering service from overseas is not subject to tax.

The 2004 National budget was announced on 12 September 2003 with a theme “Building on success, investing for the future”. The GDP of the first half of 2003 achieved a growth rate of 4.5% on average with manufacturing industry achieved the highest growth at 6.5%. The government was to continued focus on an accommodative monetary policy where interest rate would be maintained at a low level. The strategy for this year budget

mainly targeted on accelerating domestic private sector, implementing fiscal consolidation towards a balance budget, and implementing monetary policy which can encourage private consumption and investment.

As reported in National Budget 2005, Malaysia's economy achieved a remarkably growth at 7.6% in the first quarter of 2004 and 8% in the second quarter. On average, the GDP is predicted to reach 7% for year 2004. Private investment has shown a sign of recovering as the growth achieved 14.8% while private consumption is growing at 9.3%. The Prime Minister Abdullah Ahmad Badawi has then identified four strategies which focus on upgrading the effectiveness of Government financial management and efficiency, human resources development, improving quality of life and aim to create a high value added economy. Government budget deficit is also reduced to 3.8% of GDP, which is about RM117 billion. There was also an introduction of the new Goods and Service Tax with the aim of reducing corporate and income tax rates.

Themed on "Strengthening Resilience, Meeting Challenges", the 2006 Budget focuses on initiatives to generate quality growth as a foundation to achieve long term growth sustainability. As reported in the budget, Malaysian Economy has fully recovered from the 1997 financial crisis with GDP growth rate estimated at 5% for 2005. The strong economic growth is basically attributable to stronger balance of payments with a surplus of 12% of GNP, and manageable inflation. Growth is foreseen to stay strong at 5.5% in 2006. While two of the 2006 budget strategies will still be developing human resources and enhancing well-being of the society, the strategies also focus on creating a more

business friendly environment and implementing proactive measures to speed up the economic activities. The Budget deficit will be further reduced to 3.5% of GDP, or RM136.8 billion, for 2006. RM 35.5 billion of development expenditure would be allocated to help advance agriculture, industry, infrastructure, education, health, housing, and security and administration sectors. To help reducing cost of doing business, the government proposed that income from investment from investment holding companies is treated as business income and thus the expenses would not be restricted for purpose of tax reduction.

Budget 2007 is an action plan to reinforce the implementation of national mission towards achieving Vision 2020. In order to achieve this, the Budget 2007 has added in several incentives to boost the growth of private sectors. As reported in the budget, GDP is expected to grow at a remarkable 6% in 2007 and private investment is predicted to increase by 10.1%. A strong growth of 7.3% in manufacturing reflects a strong growth in private consumptions and private investments. However, due to the increase in oil prices, the CPI has been raised to 3.9% in the first seven months of 2006. To fight inflation, the government will incur RM19 billion for oil subsidy and tax forgone, which is RM3 billion higher than 2005. To ensure smooth implementation of the National Mission, RM159.4 billion has been proposed in the budget, where RM112.9 billion is used for operating expenses and the balance for development expenditure. Government's revenue is also forecasted to increase by 11.8% to RM134.8 billion. This remarkable increase allows the government to continue its expansionary fiscal policy to support domestic activities. In order to motivate private investment, the government proposed a cut in

corporate tax rate to 27% in 2007 and another 1% reduction to 26% in 2008. Other tax incentives include tax exemption for venture capitalists who invest at least 50% of their fund in seed capital, and the reduction of *zakat* paid by cooperatives of up to 2.5%.

The plan in 2008 National Budget announced on 7 September 2007 reveals the intention of the government to continue implementing the National mission through: (1) moving the economy up the value chain (2) nurturing first class mentality by raising capacity for knowledge and innovation (3) addressing issue of socio-economic inequalities positively (4) enhancing quality of life and (5) strengthening the institutional and implementation capacity. To strengthen the nation's competitiveness, the government aim to provide a more conducive environment to conduct private investment. The current imputation tax system has also been simplified to single-tier system where profits are only taxed at company level. A further reduction in corporate tax to 25% has been proposed for 2009 to further assist the growth of private sector.

The Malaysian economy managed to sustain a strong growth in 2008, as announced in the 2009 National Budget, where the GDP is reported to reach 7.1% in the first quarter of 2008 and 6.3% in the second quarter and it is expected to achieve an average of 5.7% in 2008. Themed on "A Caring Government" the 2009 budget aimed to enhance the well-being of all Malaysians. An allocation of RM207.9 billion into the budget 2009 was proposed. Of this, RM53.7 billion is for development expenditure in agriculture, industry, infrastructure, education, health and housing.

Budget 2010 was announced by Najib Razak, the 6th Malaysian Prime Minister on 23 October 2009. As reported in the Budget, due to the global economic crisis, Malaysian exports fell tremendously by 23.4% in the first half of 2009 and total net foreign investment was reduced RM3.6 billion. To prevent the country's economy to slide into deep recession, the government has implemented the Economic Stimulus Packages which effectively slow down the reduction of GDP from -6.2% in the first quarter of 2009 to 3.9% in the second quarter. However in 2010, the economy is expected to expand at 2% to 3%. Riding on the theme of "1Malaysia, together we prosper", the 2010 budget aims to drive the nation to a high-income economy, ensure sustainable development and enhance the well-being of the people. Besides taking care of the private investment and creating a business-friendly environment, this budget also highlights government's initiatives to privatize companies under MOF Inc and other government agencies. To further attract private direct investment, the government has relaxed condition for foreign companies to invest in Malaysia.

The Budget 2011 focuses on revitalizing private investment, human capital development, improving quality of life and strengthening public service delivery. To implement these strategies, RM212 billion has been proposed in the budget 2011, in which RM49.2 billion is allocated to development expenditures. Of this amount, RM28.3 billion is allocated to economic sector, RM15.5 billion to social sector and the rests security and administration. To reinvigorate private investment, government has encouraged private sector to involve in several projects under the 10MP together with the government. As for the second strategy which focus on developing human capital, the government's initiatives include

strengthening primary and secondary education through allocating of RM250 million as development fund, as well as trying to increase the number of PhD qualified academic staff.

Entering 2012, the Budget forecasted a strong economic growth of 5—5.5% in 2011 and between 5% and 6% in 2012. In 2012, the private investment is expected to increased by 15.9%. Service and construction sectors are forecasted to grow at 6.5% and 7% respectively. In terms of government revenue, it is expected to increase 1.9% to RM186.9 billion and the deficit is further decreased to 4.7% of GDP. Budget 2012 sees the allocation of RM232.8 billion for government plans, where RM181.6 billion is for management and RM51.2 billion for developing infrastructure, rural areas, education, social welfare and others. In order to further accelerate foreign investment in Malaysia, 17 services subsectors are going to be opened up for 100% foreign equity in 2012, following the liberalization of the 27 services sub-sectors in April 2009.