US probe into 1MDB scandal deepens Malaysian political turmoil

John Roberts, Peter Symonds
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As Malaysian Prime Minister Najib Razak last week prepared to fly to London and New York, the *New York Times* and *Wall Street Journal* reported that US authorities had launched their own investigation into aspects of the corruption scandal surrounding the state-owned 1Malaysia Development Berhad (1MDB) investment fund.

The inquiry, carried out as part of the US Justice Department's Kleptocracy Asset Recovery Initiative, will compound the political crisis surrounding the Malaysian government over allegations that directly implicate Najib, his family members and close associates. Investigations are already underway in Malaysia itself, as well as Singapore, Hong Kong and Switzerland.

The 1MDB affair reportedly centres on the funnelling of nearly $US700 million from the investment fund into Najib's personal accounts around the time of Malaysia's bitterly contested 2013 national elections. After initially denying receiving the money, Najib declared that the cash had come from an unnamed Middle Eastern donor and was held on behalf of Najib's party, the United Malays National Organisation (UMNO).

The US Justice Department, the FBI and a grand jury are now engaged because the money transfer was in US dollars, and therefore must have involved the American financial system. According to the *Wall Street Journal*, complex transfers to Najib's accounts included the funnelling of money via Wells Fargo from a Swiss private bank.

The US investigation is also examining property deals allegedly implicating Najib's stepson Riza Aziz and businessman and family friend Jho Low, who is also embroiled in the 1MDB case. The *New York Times* claims to have documented more than $150 million in luxury residential properties connected either to Aziz or Low.

Najib is already under pressure to resign, with that demand coming from opposition parties and within UMNO, including by former Prime Minister Mahathir Mohamad. At the end of August, opposition rallies, joined by tens if not hundreds of thousands of people, were the largest protests since those that followed the 2013 election. Opposition parties won over 50 percent of the votes in 2013, but obtained only 89 seats in the 222-member parliament because of an entrenched gerrymander that has kept UMNO in power since formal independence in 1957.

Najib's position has become more tenuous the longer the scandal has continued. Singapore froze two bank accounts last month after a probe over financial mismanagement linked to 1MDB. On September 2, Swiss authorities froze millions of dollars in accounts linked to the fund as part of an inquiry into corruption and money laundering. On September 10, Hong Kong police began an investigation into deposits of $250 million in the local Credit Suisse branch.

At the same time, a United Arab Emirates state fund with business links to 1MDB launched an inquiry into amounts of up to $2.4 billion that 1MDB claimed it had transferred to the International Petroleum Investment Company but had not been received by that company.

The US investigation is particularly damaging to Najib. After taking office in 2009, Najib moved away from the anti-American rhetoric of the Mahathir years. He increasingly accommodated to the Obama administration's "pivot to Asia," directed at undermining Chinese influence in the region and militarily encircling Beijing.

In return, Washington has provided Najib with critical political support, all but ignoring the anti-

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democratic character of the 2013 election and the protests that followed. In April last year, Obama became the first US president to visit Malaysia since the mid-1960s and did not meet with opposition parties. When opposition leader Anwar Ibrahim was jailed for a second time in February on bogus sodomy charges, Washington barely noted the fact.

It appears that Najib is collateral damage. The US investigation was prompted in part by a *New York Times* investigation into the purchase of luxury condominiums at the Time Warner Centre in Manhattan by shell companies used to hide the identity of buyers. The newspaper cited purchases not only by Low but also an Indian builder Kabul Chawla, a prominent Mexican family, the Murats, and "an enclave of powerful Russians," including Andrey Vavilov.

The mounting case against Najib presents a quandary for Obama, who is due to meet the Malaysian prime minister next month to discuss a "strategic partnership" between the two countries. Last December, Najib and Obama were pictured playing golf together in Hawaii.

The ongoing political turmoil in Malaysia's ruling circles is being fuelled by the country's deteriorating economy, largely due to China's economic slowdown, falling oil prices and declining foreign investment. So far this year, foreign funds have sold almost $4 billion of Malaysian shares, compounding the 26 percent fall in the value of the ringgit over the past 12 months.

Mahathir has attacked Najib for carrying out too many pro-market "reforms" and for supporting the US-led Trans Pacific Partnership, saying it will reduce Malaysia to an economic colony of the US. Mahathir is closely linked to ethnic Malay business interests that have relied on the UMNO government's previous protectionist measures.

Najib has replied by purging his cabinet and effectively closing down the 1MDB investigations, all with the help of the pro-government mass media. In response to opposition rallies last month, UMNO organised its own counter demonstration on September 16 that was dominated by anti-ethnic Chinese chauvinism.

However, Najib faces continuing opposition in ruling circles. The head of the central bank, Bank Negara, Akhtar Aziz has continued to demand public answers over 1MDB and has forwarded the bank's own investigation to the attorney-general's office.

Two court decisions have gone against the government, which is unusual given the pro-UMNO character of the judiciary. The High Court has lifted a ban on a newspaper and a web site of the Edge Media Group that first published details of the 1MDB scandal. Another court has allowed a lawsuit to proceed that seeks the return of funds transferred into Najib's accounts and for his assets to be seized worldwide. The government is appealing both decisions.

The opposition parties, which were in disarray after the break-up of the Peoples' Alliance, are seeking to capitalise on the government crisis. Anwar's People's Justice Party formed a new coalition last week with ethnic Chinese-based Democratic Action Party (DAP) and Parti Amanah Negara, a breakaway group from the Islamist Parti Islam se-Malaysia (PAS). PAS left the Peoples' Alliance in June, declaring that it could not work with DAP.

Anwar has long been a champion of pro-market reform. He and his supporters were expelled from UMNO by Mahathir amid the 1997-98 Asian financial crisis when Anwar, as finance minister, sought to carry out the demands of the International Monetary Fund for a more open, foreign investor-friendly economy. Anwar was arrested and convicted of trumped-up charges of corruption and sexual misconduct.

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