

China bails out embattled Malaysian prime minister

John Roberts

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The Chinese government has thrown a political life line to Malaysia's embattled prime minister, Najib Razak, by announcing the \$US2.3 billion purchase of the power industry assets of the heavily indebted, state-owned investment fund, 1Malaysia Development Berhad (1MDB).

For months, Najib has been embroiled in a corruption scandal over \$700 million allegedly shifted into his accounts from 1MDB funds. He has faced intense criticism, including from within his own United Malays National Organisation (UMNO), amid growing concerns about the country's weakening economy that has been hit by global stagnation and falling commodity prices.

Financial commentators have blamed the 1MDB scandal and a government crackdown on oppositionists and government critics as one source for the growing lack of investor confidence. The slowdown in capital inflow has contributed to the ringgit being the region's worst performing currency, losing 19 percent in value against the US dollar this year and around 25 percent in the last 12 months.

The announcement of China's asset purchase on November 23 came after talks in Kuala Lumpur between Najib and Chinese Premier Li Keqiang. A joint statement was issued by the state-owned China Nuclear Power Group (CGN), 1MDB and its power industry unit Edra Global Energy Bhd.

Beijing intervened directly to push the deal. CGN had its Hong Kong subsidiary withdraw from the purchase so that the agreement could be concluded quickly without the need for shareholder approval or disclosures.

CGN will take on unspecified debts from 1MDB related to the assets. According to the official Chinese news agency Xinhua, the deal worked out between

Najib and Li includes increased Chinese investment in Malaysia and purchase of Malaysian government bonds.

The assets are in Malaysia where the Edra Global is the country's second biggest power producer, in Egypt and Bangladesh where the company is the largest independent power producer, as well as in Pakistan and the United Arab Emirates.

The agreement gives Najib much-needed time as he manoeuvres to manage the 1MDB crisis and arrange other debt repayments as he wards off threats to his position as UMNO leader and prime minister.

For Li, the bailout was a part of a broader Chinese agenda as he attended the East Asian Summit sponsored by the Association of South East Asian Nations (ASEAN) in Kuala Lumpur. At the summit, Li again came under pressure from US President Obama over its territorial claims in the South China Sea. In October, a US navy warship deliberately intruded within the 12-nautical-mile limit around Chinese-controlled islets.

Obama's diplomatic offensive is part of his administration's strategic "pivot" or "rebalance" to Asia, aimed at curtailing Beijing's economic clout in Asia and encircling China militarily in order to secure US hegemony in Asia, by force if necessary. The "pivot" has transformed the entire region into a diplomatic, economic and strategic battleground.

Obama held his own meetings with Najib during his three day visit to Malaysia, focussing on the need to develop the 2014 US-Malaysia Comprehensive Partnership. Despite opposition from within UMNO and the BN, Najib has bowed to pressure from Washington and signed up to the US-led Trans Pacific Partnership, aimed at building an anti-China economic bloc.

Washington has also developed closer military ties with Malaysia and encouraged the government to more aggressively assert its claims in the South China Sea against China. Malaysia has been admitted as an observer and supporter of the US-organised Global Coalition to Counter ISIL, also known as Islamic State of Iraq and Syria (ISIS). It has agreed to set up an anti-ISIS data and propaganda centre in Malaysia.

In return, Obama, during his stay in Kuala Lumpur, played down both the government's repressive measure against critics and opponents, and the 1MDB scandal engulfing Najib. Asked at a public meeting about the corruption allegations, Obama dismissed the question, saying the US had to be humble "because there are times where we did the wrong thing."

During his visit to Malaysia, Chinese Premier Li also set about reinvigorating the China-Malaysia "Special Relationship." Malaysia is China's top trading partner in ASEAN and third in Asia after Japan and South Korea. In May last year during Najib's visit to China, Li and Najib agreed to increase bilateral trade to \$160 billion by 2017.

In a move that will undoubtedly raise concerns in Washington, the commanders of the Chinese and Malaysian navies reached an agreement on November 10 for Chinese vessels to have access to Kota Kinabalu port in Sabah (north-east Borneo) directly facing the disputed area in the South China Sea.

This is the port from which the destroyer USS Lassen departed to sail inside the 12-nautical-mile limit of one of Chinese claimed islets on October 27. Malaysia has allowed US P-8 maritime surveillance aircraft to land in the area. Malaysia claims each event is decided on a case-by-case basis and is not equivalent to basing rights.

Li visited the city of Malacca which is to play an important part in Beijing's plans for a network of ports, a 21st Century Silk Road, stretching from China to Europe via South East Asia and Africa. The Road complements plans for land corridors linking Asia and Europe across the vast Eurasian land mass.

During the East Asia Summit, Li promised ASEAN loans of \$10 billion for infrastructure projects and identified a high-speed rail link from Kuala Lumpur to Singapore as a priority. He also promised to provide a \$7.8 billion quota in China's Renminbi Qualified Institutional Investor scheme, which allows Malaysian

investors to buy renminbi-denominated shares on China's stock markets.

In a barely-disguised reference to the US, Li told his Malacca audience that the 15th Century Chinese admiral Zheng He peacefully visited Malacca with the greatest fleet of the day and "did not bring hostility and conflict." China today would do the same, he said, promising: "China's development will first benefit its neighbours, including Malaysia."



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