

Malaysian investment fund default intensifies political instability

John Roberts
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Malaysia's state-owned investment fund, 1Malaysia Development Berhad (1MDB), confirmed on April 25 that it had defaulted on a \$US1.75 billion bond after it missed an interest payment of \$US50 million.

The latest development in the scandals surrounding the fund has further undermined the position of Prime Minister Najib Razak, who founded 1MDB in 2009 and chairs its advisory board. The default is fuelling rifts within Malaysia's ruling elites, with former Prime Minister Mahathir Mohamad earlier this month calling for foreign intervention to oust Najib.

The default followed a dispute with Abu Dhabi's state-owned International Petroleum Investment Company (IPIC) after its officials withdrew from a \$4.7 billion deal to help restructure some of the massive \$12.7 billion debt the 1MDB has accumulated.

IPIC entered a deal in 2012 to provide a loan of \$1 billion to 1MDB in exchange for an assets transfer and also agreed to assume interest obligations from \$3.5 billion of 1MDB's debt. On April 18, the Abu Dhabi fund declared that 1MDB and the Malaysian Finance Ministry were "in default" on the loan.

Global financial markets reacted mildly to the default, calculating that 1MDB remained guaranteed by the Malaysian government. Moody's Investors Service said its view on 1MDB was "relatively intact," while Standard & Poor's said it saw no impact on Malaysia's rating for now.

Nevertheless, Moody's analyst Christian de Guzman noted that the government's debt burden had grown to around \$7.5 billion, or 2.5 percent of gross domestic product. Hong Kong City University political science professor Bill Case told the *Malaysia Chronicle* that the 1MDB scandal was "so serious and the amounts so large" that a default and government bailout would deal a blow to Malaysia's "entire financial system."

Investigations into 1MDB corruption and money laundering are underway in Switzerland, Singapore, the United States, Hong Kong and the United Arab Emirates. The *Wall Street Journal* on April 18 reported global investigators now estimate funds "siphoned" out of 1MDB to be as much as \$6 billion.

Reportedly, none of the foreign government inquiries has directly implicated Najib but the *Wall Street Journal* has pointed out possible connections to Najib. In particular, it claims to have traced documents showing that Najib's "confidante" Jho Low helped transfer \$681 million into Najib's personal account in 2013. This year alone, the US financial newspaper has published 49 articles on the 1MDB scandals, indicating that international financial circles are concerned by the crisis in Malaysia and are pushing for economic and political changes.

Najib's United Malays National Organisation (UMNO) has ruled Malaysia continuously for more than 60 years through its stranglehold on the state apparatus and police state measures to suppress opposition.

Sections of the Malaysian ruling class now regard Najib's continued presence as a liability and a magnet for popular discontent amid a sharp slowdown in the economy. Mahathir, who was UMNO leader and prime minister for 22 years until 2003, has sought to pull together various opposition groups into a "Save Malaysia" campaign demanding Najib's removal.

While railing against "corruption," Mahathir's real differences with Najib centre on the latter's limited moves to open the economy to the global money markets—steps that threaten the protected business empires that underpin UMNO. Last year, when Najib signed up to Washington's Trans-Pacific Partnership trade and investment bloc, Mahathir said it would turn

Malaysia into an economic colony.

Having failed to oust Najib from within UMNO itself last month, Mahathir quit UMNO, saying it had become Najib's party. Mahathir, who was once Najib's mentor, has even turned to Anwar Ibrahim, his former deputy prime minister whom he jailed on trumped-up sodomy charges in 1998. Mahathir moved against Anwar for proposing to adopt open market measures. Anwar was ultimately released from prison, but was jailed again in February 2015 by Najib, using similar methods.

Anwar issued a statement from prison last month, saying he would "support the position" of those in civil society, political parties and individuals, including Mahathir, in the push to remove Najib.

Splits may emerge within UMNO. Also joining the campaign was Muhyiddin Yassin, who was sacked as deputy prime minister last year after he openly questioned Najib on the 1MDB scandal.

On April 10, Mahathir told the *Australian* newspaper he had combined forces with a grand coalition of opposition parties, including Anwar's People's Justice Party (PKR, also known as Keadilan), because he was left with no other option.

The fact that sections of Anwar's PKR and the DAP have formed the anti-Najib pact with Mahathir also reflects the opposition's weakness since its People's Alliance coalition broke apart last June. The Parti Islam se-Malaysia (PAS) split from the coalition, effectively propping up Najib.

Amid this political turmoil, both the Najib and anti-Najib camps are looking for backing by the Western powers. For the past three years, Najib has been shored up by the support of the Obama administration, which endorsed UMNO's win in blatantly gerrymandered 2013 national elections. That backing was in return for Najib's tilt of foreign policy toward the US and its "pivot to Asia," directed against China.

Washington's political support has been critical in Najib's ability to shut down all national investigations into the 1MDB and use Sedition Act prosecutions—91 in 2015—and press censorship to suppress dissent.

After "Save Malaysia" rallies failed to attract widespread popular support during March, Mahathir called for foreign intervention. In his April 10 interview with the *Australian* he said there was little hope Najib would step down without outside pressure. "Normally I

don't like foreign interference in Malaysian affairs but our avenues for redress have been closed completely," he said.

The impact of the global economic slump is worsening the political instability. The Malaysian economy is still expected to grow by 4.4 percent in 2016, but that is well below the 6 percent growth in 2014. The situation is adversely affected by falling commodity prices and volatile capital flows. The country's foreign currency reserves are 30 percent below their 2013 high. In response, Najib's government is cutting social spending further and continuing to enforce its unpopular goods and services tax.



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