

Former Malaysian prime minister arrested and charged

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Former Malaysian Prime Minister Najib Razak was arrested on Wednesday and charged over a multi-billion dollar corruption scandal involving the state investment fund, 1Malaysia Development or 1MDB. Razak, who appeared in court yesterday, pled not guilty to all charges and was released on bail of 1 million ringgit (\$US247,000).

The newly-installed government headed by Prime Minister Mahathir Mohammad rapidly ramped up the 1MDB probe after winning the May 9 election, which ended six decades of rule by governments dominated by the right-wing United Malays National Organisation (UMNO).

Mahathir, who was head of UMNO and prime minister from 1981 to 2003, exploited the corruption scandal to the hilt during the election campaign. By ensuring that Najib is charged, he is seeking to consolidate his grip on power, which rests on an unstable five-party coalition. Other arrests could be pending. The new government has banned a number of former officials, as well as Najib, from leaving the country.

The 1MDB scandal, which erupted in 2015, has been a revealing exposure of the manner in which UMNO and its allies, not just Najib, have ruled Malaysia since formal independence in 1957. Najib attempted to quash any investigation into 1MDB, including by firing his attorney general, but the scandal triggered probes by authorities elsewhere—in the US, Singapore and Switzerland.

The US Justice Department filed a civil action in 2016 alleging that \$4.5 billion was looted from the investment fund. The lawsuits implicated Najib, who was identified only as “Malaysia Official 1,” along with his close associates and relatives. It was alleged that \$681 million from 1MDB went into his personal

accounts, which he claimed was a legitimate political donation to UMNO.

Najib has been charged with three counts of criminal breach of trust, which is punishable by up to 20 years in jail, and one of using his position for gratification. The charges related to just one aspect of the scandal, involving \$10.5 million, allegedly from a former 1MDB unit, that wound up in his personal account.

The scandal highlights the incestuous relations that UMNO and its political and financial cronies developed with all aspects of the Malaysian state. The UNMO-led coalitions presided over a police-state apparatus that suppressed all forms of political opposition. In 1998, in the midst of the Asian financial crisis, Mahathir fell out with his deputy and finance minister Anwar Ibrahim, expelled him from UMNO and had him arrested and jailed on trumped-up charges of corruption and sodomy.

Mahathir has never been charged with corruption, but he was notorious for his close connections to financial cronies. Last July, as pressure mounted on Najib to resign, he sought to deflect attention from the 1MDB scandal by lashing out at Mahathir. “Under his leadership many corners were cut, and the Malaysian people had to pay a very high price so that a few of his friends benefited, even when symbols of national pride had horrendous and catastrophic decisions inflicted on them,” Najib said.

In reality, the 1MDB affair has little to do with fighting the endemic corruption in the Malaysian ruling elites. It is bound up with bitter internal tensions fuelled by global economic instability and rapidly sharpening geo-political tensions, in particular between the US and China. Like its counterparts throughout the region, Najib’s government sought to balance between the economic powers as the Obama administration ramped

up its confrontational “pivot to Asia” aimed at undermining China throughout the region—a policy continued under Trump.

Obama sought to woo Malaysia more closely into the US sphere of influence. In 2013, when Najib scraped back into office on the basis of a flagrant gerrymander, Obama rang the Malaysian prime minister to congratulate him, despite mass opposition protests. In April 2014, Obama became the first US president to visit Malaysia since 1966. He signed a “Comprehensive Partnership” with Najib and pointedly refused to meet with opposition leader Anwar Ibrahim.

Najib strengthened military ties with the US and lined up with the Obama administration in criticising China over its territorial claims in the South China Sea. Malaysia also joined the Trans-Pacific Partnership (TPP), engineered by the Obama administration as a means for undermining Chinese trade and investment.

At the same time, however, Najib sought to maintain close economic ties with China, which is Malaysia’s second largest export market after Singapore, and largest supplier of Malaysian imports. In 2015, the state-owned China Nuclear Power Group announced a \$2.3 billion purchase of 1MDB power assets, helping ease the pressure of the scandal on Najib. In 2016, Najib visited China and sealed a raft of agreements, including to forge closer military ties. As part of its huge One Belt, One Road infrastructure program linking Eurasia, China has heavily financed a number of Malaysian projects.

The growing ties between Malaysia and China must have sounded alarm bells in Washington. Certainly, the *Wall Street Journal* played a major role in exposing the various aspects of the 1MDB scandal and the US Treasury authorised a probe into the allegations. Along with concerns about Malaysia’s ties with China, Wall Street has always been hostile to the economic controls and cronyism that act as a barrier to foreign investment in Malaysia. In 2016, the *Economist* magazine’s crony capitalism index ranked Malaysia as the second worst in the world, after Russia.

Notwithstanding Obama’s diplomatic outreach to Najib and a meeting between Trump and Najib in the White House last September, Washington played a significant role in his political demise by highlighting the 1MDB corruption revelations.

Mahathir’s new government quickly signalled a

review of Malaysia’s involvement in the One Belt, One Road program by suspending three Chinese-backed projects, estimated to be worth \$22 billion. It is also probing whether a loan from a Chinese state-owned bank benefitted the 1MDB investment fund. During the election campaign, Mahathir pledged to review all Chinese projects and “unequal treaties.”

Whether there is a pronounced tilt toward Washington remains to be seen. The government’s instability is underscored by the fact that Mahathir and Anwar are both part of the ruling coalition. Mahathir is due to step down to allow Anwar to take over as prime minister in two years.

Their bitter clash in 1998 was over basic issues of economic policy—the right-wing populist Mahathir was determined to protect his economic cronies from the Asian financial crisis, whereas Anwar was doing the International Monetary Fund’s bidding to open up Malaysia to foreign investment. Those fundamental disagreements remain.



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