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Newspaper	BLOOMSBURG BUSINESS WEEK
Date	1-7 AUGUST 2016

Global Economics

◀ of opposition from congressional Republicans, who fear it would open the U.S. to lawsuits. But the U.S. “scrupulously” follows the treaty’s provisions anyway, says James Kraska, a law professor at the U.S. Naval War College. Push could come to shove if another nation seeks to fish or drill or mine in waters surrounding some dinky U.S. rock.

The tribunal concluded that having people live on an island doesn’t prove habitability if food and water comes from elsewhere. Countries will “now have a greatly reduced incentive” to fight over ownership of rocks if they no longer have exclusive zones, Kraska says. On the minus side, fisheries might be depleted quickly if countries lose the ability to curb fishing in these zones.

—Peter Coy

**The bottom line** An arbitration panel’s definition of what an island is could undermine nations’ claims of economic zones around rock outcroppings.

Power

Malaysia’s Premier:  
What Scandal? *Aug 1-7, 2016*

*Bloomberg Business Week*

▶ Najib keeps cool as a graft drama swirls around a state fund

▶ “All that is left are loyalists” who say he’s innocent or don’t care

On July 20, the day U.S. prosecutors in Washington alleged massive fraud at a Malaysian state fund, it was business as usual for Prime Minister Najib Razak. At an evening feast for civil servants, he shook hands and posed for selfies. The next day he viewed the unveiling of a sedan by Malaysia’s top carmaker. He said in passing the U.S. Department of Justice action should be allowed to run its course. The DOJ can investigate the Malaysian fund because the U.S. alleges that \$1 billion of the fund’s money was laundered through U.S. banks (page 36).

Najib has weathered a year of scandals over political donations—and may well survive the latest overseas controversy. The premier is focused on matters at home, especially the economy, as he seeks to preserve his base of ethnic Malays. Only if that support cracks will he risk losing power.

The economy is projected to expand this year 4.5 percent at most, its slowest pace in seven years, as the country’s oil revenue falls. Spending constraints could limit Najib’s ability to increase the cash handouts the government gives to 7 million Malaysians, or 1 in every 4 citizens. Foreign investment, though, rose 28 percent in the first quarter from a year earlier.

The U.S. civil suits seek to seize more than \$1 billion in assets that prosecutors allege were acquired with money siphoned from state fund **1Malaysia Development Bhd.** U.S. investigators say more than \$3.5 billion was spent on paintings, real estate, and a Hollywood film. An additional \$700 million ended up in accounts controlled by an official whose description fits Najib. The premier, who chaired the advisory board of 1MDB until recently, has denied wrongdoing. But Najib has acknowledged about \$700 million went into his accounts before the 2013 election. He’s said the money was a private donation from the Saudi royal family and most of it was returned.

The U.S. complaint didn’t accuse any individuals of wrongdoing. There’s no immediate sign that the U.S. will press criminal charges, and chances of Najib being indicted at home appear slim. Local investigations have largely wrapped up. The Malaysian attorney general concluded earlier this year that Najib didn’t engage in any graft.

When the news of his bank account broke in July 2015, the premier acted fast, firing detractors, including his deputy prime minister, and curbing dissent within his United Malays National Organisation (UMNO). After the Department of Justice alleged fraud at 1MDB, senior Malaysian officials were quick to close ranks. History has shown the U.S. can act too hastily and then be proven incorrect, says the communications minister. There’s no evidence from any probe anywhere that funds were misappropriated, Malaysia’s



attorney general says, expressing “strong concerns at the insinuations and allegations” against Najib.

Says Gregory Poling, a Southeast Asia specialist at the Center for Strategic & International Studies in Washington: “The opposition was already certain that Najib had a hand in money laundering from 1MDB. Within UMNO, Najib has forced out all those who thought the same, so all that is left are loyalists who are either convinced that he is innocent or who don’t care one way or another.”

As long as Najib is backed by UMNO’s division heads—191 leaders who select party officials—his position is secure. Come election time, they will decide whether Najib can win again. Says Vaninder Singh, an economist at Royal Bank of Scotland: “The political risk premium on Malaysian assets has come down quite a bit. If there’s another election and there’s a strong showing by UMNO, whatever’s left will go away.”

—Shamim Adam, with Chris Blake, Anuradha Raghu, and Y-Sing Liaw

**The bottom line** Supporters of Malaysia’s ruling party worry more about the economy than the outcome of a money-laundering scandal.

Edited by Christopher Power and David Rocks  
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