

**Mahathir's Disastrous Financial Speculation**  
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**By Our Correspondent**

***A murky and embarrassing case is closed, hiding top government officials' involvement***

Sometime over the next few days, a court in Kuala Lumpur will put the finishing touches to an agreement that allows Tajudin Ramli, the former head of Malaysian Airline System, not only to walk away from charges that he had looted the airline of tens of millions of US dollars but with an RM580 million (US\$293.2 million) out-of-court settlement from the government.

It appears to be a settlement that the government would rather keep to itself. At the heart of the agreement with Tajudin is a convoluted story that began as long ago as the 1980s when Malaysia's central bank, Bank Negara Malaysia, at the urging of then-Prime Minister Mahathir Mohamad, began speculating aggressively in global foreign exchange markets, at one time running up exposure rumored to be in the region of RM270 billion - three times the country's gross domestic product and more than five times its foreign reserves at the time.

Eventually, playing with the big boys came home to roost. In 1992 and 1993, Mahathir became convinced he could make billions of ringgit by taking advantage of a British recession, rising unemployment and a decision by the British government to float the pound sterling free of the European Exchange Rate Mechanism.

Mahathir ordered Bank Negara to buy vast amounts of pounds sterling on the theory that the British currency would appreciate once it floated. However, in what has been described as the greatest currency trade ever made, the financier and currency wizard George Soros's Quantum hedge fund established short positions, borrowing in pounds and investing in Deutschmark-denominated assets as well as using options and futures positions.

In all, Soros's positions alone accounted for a gargantuan US\$10 billion. Many other investors, sensing Quantum was in for the kill, soon followed, putting strenuous downward pressure on the pound. The collapse was inevitable. Quantum walked away with US\$1 billion in a single day, earning Mahathir's eternal enmity and earning Soros the title "the man who broke the Bank of England."

Mahathir and Bank Negara, on the other hand, walked away with a US\$4 billion loss, followed by another US\$2.2 billion loss in 1993, the total equivalent of RM15.5 billion. Although the disastrous trades destroyed the entire capital base of Bank Negara, after first denying it had taken place, the then-Finance Minister Anwar Ibrahim repeatedly reassured parliament that the losses were only "paper losses" and, now that he is Opposition Leader and head of the Pakatan Rakyat opposition coalition, has managed to skate free of the controversy.

Eventually, the Finance Ministry had to recapitalize the central bank, almost unheard of for any government anywhere. It is reliably estimated that Bank Negara lost as much as

US\$30 billion in this and other disastrous currency trades, costing the head of the central bank and his currency trader deputy their jobs.

It was at one with Mahathir's unfortunate penchant for believing he could beat the global financial system in other ways. In the early 1980s, at his behest the Malaysian government attempted to corner the tin market through Maminco Sdn Bhd, a dummy company set up to buy tin futures and physical tin to push up prices on the London Tin Market. Malaysia at that point was producing 31 percent of the world's tin.

However, the rising prices as a result of Malaysia's action caused miners to increase production in the other 69 percent of the tin world. At the same time the US government released its tin stockpile. The price collapsed, costing Malaysia RM1.6 billion with the subsequent low prices wrecking Malaysia's tin industry. Mahathir has repeatedly railed against western governments for rigging the rules against him.

The attempt to corner the tin market and the subsequent loss established an interesting precedent in terms of what would take place with the speculation in the pound sterling. Rather than acknowledge the losses in the tin speculation, the government set up another dummy company called Makuwasa Sdn Bhd, creating new shares supposedly reserved for ethnic Malays which were allocated to the Employee Provident Fund, the country's retirement fund for private and public workers. The plan was to sell these cheaply acquired shares, supposedly reserved for poor bumis, at market price for a profit to cover Maminco's losses. Finally, in 1986, Mahathir was forced to admit that Makuwasa was created to recoup the government's losses from the Maminco debacle and to repay loans to Bank Bumiputra.

Fast forward to today and the out-of-court settlement between several government-linked companies and Tajudin Ramli, in which the government quietly cancelled Tajudin's debt of RM840 million. It is believed to be the biggest such sum awarded in Malaysian history.

In 1994, according to affidavits that Tajudin filed in court he bought 32 percent of the shares of the government-controlled Malaysian Airline System at a price of RM8.00 at Mahathir's behest – while the shares were trading at RM3.30 – and became executive chairman using funds from government-linked companies. According to his allegations, the idea was to use the "profit" off the share sale to cover as much as possible of the forex losses by Bank Negara from Mahathir's currency speculation.

When Tajudin took control of MAS in 1994 through his company, Naluri Bhd, MAS had a cash reserve in excess of RM600 million. Seven years later, in 2001, when the government bought back MAS for RM8 a share, the state-owned airline had accumulated losses in excess of RM8 billion. The government bought back an almost bankrupt airline for the same price that it sold to Tajudin.

In the welter of lawsuits and countersuits that eventually followed, including a RM13.46 billion statement of claim that Tajudin brought against a government-linked company involved in the mess, he alleged in his affidavit that it was Mahathir who had instructed him to acquire the stake to bail out Bank Negara.

Like Mahathir, the then 49-year-old Tajudin was a native of Alor Setar in Kedah state. He

was regarded as a shining example of the bumi businessman that Mahathir wanted to foster to run the country and take the commanding heights of the economy back from the ethnic Chinese.

Unfortunately, according to a long list of whistle-blowers within the airline, he was also involved in looting it of tens of millions of dollars and very nearly putting it into bankruptcy before the government buyback. When officials not connected to the United Malays National Organization recommended prosecution, they came under fire that nearly ruined their careers and almost put them in jail.

According to allegations in documents made public in August of 2010, Tajudin colluded with three other MAS officers and directors through two nominee companies, one in Singapore and the other in Hong Kong, to establish a company called Advanced Cargo Logistics GmbH Germany, at Hahn Airport in Frankfurt, Germany, to provide ground-handling services for MAS.

According to a report filed in March 2007 to then-Prime Minister Abdullah Ahmad Badawi by Ramli Yusuff, the director of Malaysia's Commercial Crime Investigation Department and an official who seems to have been singularly incorruptible, "Tan Sri Tajudin Ramli was in control of MAS from 1994 to 2001. When he left MAS in 2001, MAS had accumulated losses in excess of RM8 billion (US\$2.54 billion). Many projects were made under very suspicious circumstances."

Ramli Yusuff's report indicated a wide range of abuses that said Tajudin's family was deeply involved in setting up shell companies to siphon off money from MAS ancillary operations. But instead of preferring charges against Tajudin, the Malaysian Anti-Corruption Commission (MACC) went after the inspecting officer, Ramli Yusuff for allegedly not declaring his assets, for misusing a police airplane, and abusing his power as a police officer, all of which were convincingly refuted.

Ramli, however, wasn't the only one to go before the courts. His lawyer, Rosli Dahlan, who was also the lawyer for the airline itself, prepared Ramli's defense against the criminal charges only to be arrested on charges of collaborating with Ramli. At one point, on a pretext that Rosli had mishandled a letter from the MACC, police officers invaded Rosli's office, arrested and handcuffed him, then kept him in a cell overnight, refusing him medical treatment for injuries to his wrists from the handcuffs. They also refused his request to file a report against the arresting officers.

Rosli went to a court especially created to handle MACC cases, only to have the case fizzle out when a prosecutor announced that neither Rosli nor Ramli had been charged for corruption, having been summarily acquitted without having to put on a defense.

For his part, Rosli has charged that the MACC, Bank Negara, the government of Malaysia and the three major newspapers owned by the political parties had conspired with those in power to damage him for his attempts to defend Ramli.

And for his part, Tan Sri Tajudin Ramli remains uninvestigated and uncharged, and a continuing example of bumiputera power at the top of Malaysia's political and social structure, apparently RM580 million richer.

It also brings into question Prime Minister Najib Tun Razak's March 30, 2010, statement that the government "can no longer tolerate practices that support the behavior of rent-seeking and patronage, which have long tarnished the altruistic aims of the New Economic Policy. Inclusiveness, where all Malaysians contribute and benefit from economic growth - must be a fundamental element of any new economic approach."

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