



LESLIE LOPEZ

THE SIEGE WITHIN



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Leslie Lopez

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For Dad, Mum & Connie





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Prologue

Friday morning, 9 February 1996, was particularly sunny for equatorial Malaysia.

Scores of Malaysians were making their way out of the capital, Kuala Lumpur, ahead of a week-long holiday to celebrate festivals for two of the larger races in multiracial Malaysia—the Muslim Eid for the dominant Malay population and the Chinese Lunar New Year. In the extended break to follow shortly, both occasions would fall just days apart.

The mood was anything but festive in the Prime Minister's Department, a sprawling complex of traditional, ethnic-Malay styled structures on stilts. It was built on an exclusive, leafy hilltop precinct that overlooked the traffic snaking out of the city.

For the two most powerful Malaysian politicians there, it was a mix of tension, betrayal, and a deep, very deep, sense of uneasiness.

Clenching the day's edition of *The Asian Wall Street Journal* that led with a news report headlined 'Steel Fiasco May Rattle Malaysian Government', Deputy Prime Minister Anwar Ibrahim burst into his boss' office. Anwar quickly trailed the traditional Muslim greeting of as-salaam alaikum

(peace be upon you) with words that were at once a reminder, admonishment, and challenge: 'Sir, I told you we could not cover this up.' Then he handed over the newspaper.

Mahathir bin Mohamad, the Prime Minister himself, was seated behind his large, neat wooden desk. He dropped the Friday edition of *The New Straits Times*, the local English daily, and scanned the *AWSJ* carefully. Sullen-faced, Mahathir delivered his curt response: 'You leaked it to him,' as if that would settle the matter.

Two months later at the same complex, Anwar recounted the episode with Mahathir to a reporter, who immediately responded: 'You and I know that's not the case.'

'Try telling that to him,' Anwar replied, his voice tinged with resignation. The steel fiasco known as the Perwaja scandal had seriously undermined his relationship with Mahathir.

For the PM, it was a raw nerve. The showcase steel company was intended to be a pillar of his state-led industrialization drive that began shortly after he took the leadership in 1981.

But the project, like many others, ran into trouble because of widespread mismanagement and outright corruption. Perwaja became insolvent, burdened with more than USD 1 billion in accumulated losses and a debt load of more than USD 2.3 billion owed to local banking institutions, making it a systemic risk to the financial system if the government did not come to its aid.

The Perwaja debacle tracked many of the policy fiascos of the Mahathir era that, during its twenty-two years, had bounced from one financial scam to another, all disguised under the mantra of economic development. Similar to Perwaja, billions of dollars were poured into a big black hole of financially reckless ventures that showed little economic sense, if at all. Ventures into car manufacturing and ship

building had all failed spectacularly, as had Malaysia's highly misguided attempts to corner the international tin market and dabble in foreign-exchange trading.

In the months that followed the *AWSJ* exposé, which I had written, Mahathir would be persuaded by his closest business and political cronies that Anwar, his presumptive heir apparent, had become a clear and present danger.

A charismatic politician with populist leanings, Anwar quickly rose up the political ladder and, just as quickly, defined himself as the antithesis to Mahathir's brand of politics and business, often referred to as Malaysia Inc., a powerful grouping of businessmen from all sides of the ethnic divide, politicians, civil servants, and deep-state operatives who indirectly controlled large swathes of the Malaysian command-capitalist economy that Mahathir had created. This is where business and government worked together in development, the economy anchored on the so-called privatization programme. More than an outsider, he was widely viewed as a direct threat to the intricate web of patronage and racketeering that defined national politics, itself dictated by the narrow interests of the political elite, comprising parliamentarians, shadowy deep-state operatives, senior civil servants, regulators, businessmen, and media operators.

The growing intolerance towards Anwar boiled to the surface during the summer of 1997 when the regional economic crisis hit. Reckless spending on projects with little commercial sense was turning the Mahathir dream into a nightmare that was set to bring down the system. Anwar opposed the use of public funds to bail out Mahathir's cronies, whose projects were tottering under mountains of debt.

To keep intact the economic and political system Mahathir had built, Anwar had to be brought down at all costs.



In a carefully choreographed political assault unprecedented in Malaysian history, Mahathir served Anwar as an example of what would happen to those who opposed him, and trained the entire autocratic system that he had constructed against his one-time successor.

He first slapped on capital controls that sheltered the domestic financial markets, and particularly protected the local currency, the ringgit, from being traded in currency markets.

Shortly after that, Anwar was stripped of his deputy premier's position and sacked from the ruling United Malays National Organization (UMNO) political party of the time.

On 20 September 1998, balaclava-clad police special forces wielding M-16 assault rifles broke into his home in KL's Damansara Heights suburb and arrested him under the Internal Security Act, which allows for indefinite detention without trial. Bashed in jail by the serving police chief, Inspector-General Rahim Noor, a black-eyed Anwar was later dragged to court, found guilty of corruption and sodomy charges and sentenced to long jail terms.

Simply put, Mahathir weaponized the judicial and security arms of the government to terminate Anwar's political career.

Mahathir's assault on economic orthodoxy by pegging the currency was a crucial element in his campaign against Anwar. Without it, the ringgit, which was already under intense selling pressure, could have depreciated sharply, leading to the sort of economic strife that earlier, in May 1998, had brought down Indonesian strongman Suharto.

With Anwar out of the way, Mahathir was free to focus on providing lifeline after lifeline in public funds to bail out his cronies as well as his own family members, and present the picture that his economic and political legacy remained intact.

In fact, Malaysia's failure to learn from the hard lessons that markets had delivered to countries such as South Korea, as well as neighbouring Indonesia and Thailand, is exactly what led to the fiasco at the very storied 1Malaysia Development Berhad (1MDB). [*Berhad*, a Malay word, is used to denote a public limited company in Malaysia; its short form is Bhd.]

The 1MDB scandal has been framed in many ways.

For the new Malaysian government that came to power in 2018 and the key protagonists (there are many), the narrative was the triumph of good over evil. This version recounts how an unlikely cast of politicians, allegedly upright technocrats, businessmen, media operators, and activists came together to help expose what has been billed as one of the biggest swindles in financial history.

But much of this was laden with selective reporting, and compromised by memories coloured by hindsight, as well as efforts to shade the truth by assigning blame to some while ascribing credit to others.

The real story is much more complex. Altruism certainly did not motivate the protagonists in a scandalous epic that took place within a political system that had long been built on notoriously pervasive corruption.

1MDB, the brainchild of the now-disgraced and jailed former PM Najib Abdul Razak, was incorporated in April 2009 and first presented as an overseas strategic investment arm funded entirely with borrowed money. But the vehicle quickly morphed into a private political slush fund for Najib and his patronage-driven UMNO party.

The rapid build-up of highly leveraged borrowing only forced 1MDB and its key drivers to hatch more and more

shady financial schemes to finance its mounting debt that, at its peak, stood at close to USD 13 billion.

There was no running away for Najib and his financial henchman, Low Taek Jho, over their direct roles as chief perpetrators of the scandal. How these two men were directly responsible for the flow of 1MDB's billions of dollars of sleaze that barrelled through global financial pipelines has been documented in great detail by the US Department of Justice, and media reports that morphed into books.

It also forced the closure of an established bank in Switzerland and continues to shake the foundations of US banking powerhouse Goldman Sachs.

What has been missing in the good-over-evil narrative is what happened in Malaysia—'ground zero' of the 1MDB scandal. Money was raised within the Malaysian financial system and allowed to flow into global financial markets. It had to be authorized by regulators, given the green light by external accounting and law firms, and approved by compliance departments of financial institutions.

As Najib's political standing weakened due to the growing infighting in UMNO, his opponents moved to use the deepening financial debacle at 1MDB to push for his ouster, threatening to charge him with corruption. The anti-Najib protagonists were of the same breed that supported Mahathir's thwarting of Anwar. They were not interested in pushing for regime change, and instead, simply wanted change at the top, because many in government were complicit in the 1MDB scandal.

The plot failed when Najib sacked his sitting Attorney General, Abdul Gani Patail, and Deputy Premier Muhyiddin Yassin, who are widely considered to be the masterminds



behind the attempted coup. That left the political elite and vested-interest groups in the anti-Najib camp with little choice but to internationalize the 1MDB issue, leading to the US Department of Justice civil forfeiture suit, and the subsequent fall of the Najib-led government.

But the spectacular ejection of the Najib-led National Front coalition government, which ranked as the longest-serving most cohesive political alliance in the world that ruled Malaysia uninterrupted since independence in 1957, did not usher any political change. Hopes that the peaceful handover of power would tear away the cloak of secrecy that long allowed politicians and their financial henchmen and surrogates leech on schemes to extract national wealth did not happen.

What did was another cover up.

'Many people failed Malaysians over the 1MDB scandal. It wasn't just politicians like Najib and Jho Low. The civil servants, regulators, lawyers, bankers, and accountants are very much to blame for this scandal,' Anwar later noted in a conversation with a journalist, after he was released from his second jail term in 2018.

'The more accurately the story is told, why our checks and balances failed and who else was complicit, needs to come out because the country can't afford for this to happen again.'

My name is Leslie Lopez, and I am the reporter with whom Anwar shared details of that encounter in the PM's office more than two decades ago, as well as his thoughts upon his release from jail in 2018.

The following pages offer my reporting of the 1MDB affair and the siege Malaysia remains trapped in.





High Priestess of Finance

September 2009

Senior executives from the foreign exchange trading division of Malaysia's central bank, Bank Negara, were shaken by huge purchases of US dollars in the domestic currency market and quickly decided to halt the resultant selling pressure on the ringgit.

Surprisingly, their queries to forex dealers from the Kuala Lumpur-based operations of Deutsche Bank, who were behind the ringgit sell-down, went unanswered.

Malaysia-based bankers, both foreign and local, know that ignoring Bank Negara, or Negara as it is typically referred to, is done at one's peril. Armed with sweeping powers, the whiff of a possible audit by Negara can send shudders through the top management and directors of banking boards.

The reputation of Negara's forex trading division, however, was somewhat chequered, the damage self-inflicted.

Negara's image had been affected in the early 1990s by its own trading misadventures in international forex markets

that had racked up losses of more than USD 12 billion over bets on the British pound, which had trader George Soros on the opposite side of the trades. The Negara governor at that time, former Price Waterhouse managing partner Jaffar Hussein, would resign in April 1994 over the scandal, in a rare display of accountability in Malaysia. That, too, only after he insisted that Negara's face in forex markets, Nor Mohamed Yackop, resign first. Nor Mohamed was head of the forex trading division at the time.

The failed financial foray was a stain that could never be wiped away and several top Negara officials had openly vowed never again to set foot on the dealing floor of the central bank, with its forbidding, plain-concrete headquarters in the heart of KL's old administrative enclave.

Fast-forward to late 2009, Negara governor Zeti Akhtar Aziz was as shaken over the ringgit sell-down as her senior executives on the trading floor. But she would make an exception on that September afternoon.

As Negara's forex traders, on the 14th floor of the central bank, worked the phones to get some explanation from counterparts in Deutsche, Zeti made a surprise appearance and wasted no time ordering her chargers to stand down. Her voice quivering when trying to emphasize a point, Zeti told Negara's forex traders to facilitate the trades for the purchase of the US dollars, which amounted to MYR 3.8 billion, or roughly USD 1 billion, going by the prevailing exchange rate at the time. 'This is for the PM (prime minister),' one trader recalls her saying.

Dressed in her trademark deep blue baju kurung, a traditional Malay long smock and dress, Zeti said nothing else before returning to her penthouse office on the



17th floor, knowing full well that her instructions would be carried out to the letter.

The build-up of the US dollar positions on that day paved the way for state-owned 1MDB to move USD 1 billion out of the country for an investment in a British Virgin Islands (BVI) entity known as PetroSaudi International. It would sow the financial seeds for what would become history's most audacious and costly financial con that is still delivering aftershocks to this day.

At the time, the Negara forex traders knew something just wasn't right. They were warned by their counterparts in private banks in Singapore and Hong Kong that the trades were highly irregular, especially because the movement of funds this large, from a state-owned entity (1MDB) to a BVI concern (PetroSaudi), was being handled solely by a foreign bank, when Malaysia had many other established financial institutions that could have easily performed the trades.

There was more. One former Negara forex trader, who remembers the episode well, noted that 'her presence at the forex floor was already out of the ordinary. She could have just made the call to the department head or dispatched one of her deputy governors to approve the trades. This clearly was personal.'

But there was no way anyone could caution Zeti about her actions, especially not the forex boys in Negara's notorious currency trading division.

Since being appointed as the country's first woman central bank governor in May 2000, Zeti had meticulously curated a public persona of financial probity. The country's first female chief of the central bank presented herself as the monetary

guardian who would shun the more risky endeavours of her predecessors, such as the reckless dabbling in international forex markets. She claimed credit for consolidating the country's banks and before long was being held up as the saviour of Malaysia's near-broken banking sector. She also took credit for pushing Islamic banking in Malaysia and the region.

International recognition came quickly and Zeti basked in the limelight, assuming the cloak of some kind of high priestess of global central banking. She carefully cultivated Kuala Lumpur-based CEOs of foreign banks, who in turn spoke of her in glowing terms to financial journalists who would parachute into the country for the occasional Malaysia story. She was named Central Banker of 2005 by financial magazine *Euromoney*. In 2004, *The Banker*, a publication of the *Financial Times*, gave her the global award for central banker of the year. There were numerous other awards from regional financial magazines and local newspapers.

Was she destined for this greatness? Zeti's past provides contradictory messages.

Zeti Akhtar Aziz was born on 27 August 1947 in Johor Bahru, the capital of peninsular Malaysia's southernmost state, Johor. JB, as it is known, sits at the waterway known as the Straits of Johor, between the peninsula and Singapore. Zeti is the only child of parents from very proud and culturally rich backgrounds. Her father, Ungku Abdul Aziz bin Ungku Abdul Hamid, of Malay and Turkish descent, was a member of the Johor royal household. Ungku Aziz was vice chancellor of Malaysia's oldest institute of higher learning, University of Malaya, for two decades until 1988, as well as a prominent economist. Zeti's mother, Norazah Abdul Aziz,

also of Malay and Turkish descent, was a journalist of note and a fierce promoter of Malay culture.

Zeti grew up in a very privileged and progressive setting, studying in two of the top Catholic schools in Kuala Lumpur. On her mother's insistence, she learnt the Bharatnatyam, a traditional dance with roots in southern India, before graduating with a degree in economics at the University of Malaya. She then embarked on postgraduate education at the Wharton Business School of the University of Pennsylvania, where she completed her PhD in monetary and international economics in 1978. Following her PhD, she took up her first job as an analyst at the South East Asian Central Banks (SEACEN) Research and Training Centre.

She joined Negara in 1984 as the deputy manager in the economics department, a humdrum division that was a far cry from the real excitement of other departments such as financial surveillance, banking regulations, and currency operations.

It was around the same time that Negara, an independent central bank that commanded influence over the economy, was under attack by Mahathir, who had come to power three years earlier. Mahathir viewed the Negara governor of the time, Aziz Taha, as an overly conservative bureaucrat who did not share the PM's vision of a Malaysian economy forged by rapid industrialization, which the PM himself would engineer and oversee.

The tensions came to a head when Mahathir appointed his close friend and advisor Daim Zainuddin as Finance Minister in July 1984. Daim, who was heavily involved in a wide array of business ventures, wanted the central bank to allow banks to free up property lending and security transactions to

stimulate the real estate and share markets. Aziz, who frowned on speculative activities, favoured tighter supervision of the country's banks and advocated that lending should prioritize the infrastructure and manufacturing sectors.

Aziz lost the credit policy confrontation after Daim got Mahathir's backing. In April the following year, the new finance minister struck at the heart of Negara's authority when his ministry took direct control of the powerful Capital Issues Committee, a watchdog for share transactions and corporate mergers and takeovers that came directly under Aziz's supervision at the central bank. Two months later, Aziz would resign, giving both Mahathir and Daim unrestrained clout over the economy. As mentioned before, Jaffar Hussein, formerly of Price Waterhouse, would replace Aziz and break with central banking orthodoxy by venturing into the risky world of foreign exchange trading, a road that would culminate in his resignation in May 1994 following the huge losses incurred by Negara in international currency trading.

During this time, Zeti would move up the ranks. Between 1989 and 1994, she headed Negara's representative office in London, a plush position for a good performer but not a posting reserved for someone destined for the top office. She returned to Negara headquarters to fill the position of chief economist. Shortly after, Zeti became one of the bank's three assistant governors, one of the best tag teams Negara ever had after the removal of Aziz by Mahathir and Daim.

Ahmad Mohamed Don and his deputy, Fong Weng Pak, were easily the country's most respected bankers before they were appointed to the central bank by Anwar Ibrahim, who replaced Daim as Finance Minister in 1991. Along with Anwar's top officers in the Malaysian Finance Ministry,

Secretary-General Clifford Herbert and his deputy, Aris Othman, the four men moved carefully, under Anwar's political cover, to repair the economy.

By 1992, a year after Anwar took over the finance portfolio, Malaysia would snap away from posting budget deficits and swing to a surplus position in government finances. This trend was maintained until the regional currency crisis, which originated in Thailand, hit in July 1997.

Zeti was never part of Anwar's stable of renaissance economic managers, nor was she someone Mahathir considered a heavy hitter.

In the corridors of Negara, debate began to swirl that Nor Mohamed, the central bank's rogue currency chief who was forced to resign in 1994 in the aftermath of the forex losses, was being tapped by Mahathir to devise ways to shield the local currency against speculation. Malaysia's top two central bankers in Negara at the time, Governor Ahmad and Deputy Fong, themselves trained accountants, turned to their chief economist for advice on the all-important question: What would pegging the currency and introducing capital controls do to the economy?

According to Negara staffers, the governor and deputy did not have any strong position on the matter but accepted Zeti's arguments that the move would be seen as breaking away from economic orthodoxy, which would then hurt the country's international reputation.

On that advice, both men dug in their heels and in late August 1998, Ahmad Mohamed, as national monetary guardian under the country's Exchange Control Act, informed Mahathir that he would not sign the diktat authorizing capital controls. He tendered his resignation after Mahathir demanded it. In solidarity with his boss, Fong also resigned.



To fill the vacuum in the central bank, Mahathir appointed Zeti as acting governor. And the woman who was against capital controls as chief economist promptly signed the order as governor, exposing the duplicitous side to her character.

The consequences of Zeti's actions at the time were huge. It allowed Mahathir to execute a strategy to destroy Anwar, his designated heir, which set Malaysian politics on the troubled path that it remains mired in today.

Her presence at Negara's foreign exchange trading floor in late September 2009 also brought huge ramifications. Had Zeti allowed the forex dealers to do their job and halt the transfer of funds to PetroSaudi, the 1MDB debacle may have been avoided.

So, who was she doing it for? Her boss Najib?

It was personal, as one senior central banker suspected at the time. It was for Low.

Muscles the Gatekeeper 2001

For a man who was often the central strategist to the many political shadow ops during Mahathir's leadership, it was particularly chilling for Daim when he realized he was being targeted by the deep state in early 2001. So, he warned his senior business disciples that his phone calls were being wiretapped by the Special Branch (SB), the covert intelligence-gathering division of the national police, which was also tracking his moves. One senior disciple, who had just recovered from a heart-bypass at the time, recalls the instructions that came from their boss through a third party: 'No calls. No meetings and tie up all loose ends.'

First came Mahathir's snide public comments on how Daim had handled the corporate rescues of politically favoured businessmen and companies mauled by the Asian financial crisis that had hit the region three years earlier. Then came the open opposition to Daim's suggestions in weekly ministerial meetings.

A remarkable thriller crafted out of politics and high finance, this knockout exposé is all the more shocking for the ring of truth behind every act

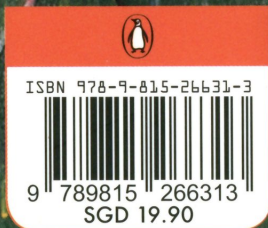
The 1Malaysia Development Bhd (1MDB) scandal has been framed in many ways by state agencies, lawyers, judges, journalists, and bloggers. But for all that has been said and written about a national debacle like no other in world history, no one has been able to capture and recreate the real drama of the financial swindle that changed Malaysian politics forever.

Until now. In *The Siege Within*, award-winning news sleuth Leslie Lopez offers a new portrait of this epic from start to finish in a comprehensive single-volume account.

By seamlessly weaving history, politics, and intrigue, bringing nearly four decades of reporting to bear on *The Siege Within*, Lopez offers a narrative of epic proportions, revealing to the reader many previously undisclosed but explosive slices and moments of contemporary Malaysia before meticulously dissecting the 1MDB scandal with vivid storytelling that unravels a complex financial fiasco while presenting the big picture. The narrative takes the reader through a series of events over the last three decades, previously viewed as separate but which are in fact, as only Lopez may show, unifying beneath the surface. Lopez charts a journey through history, leading to the incorporation of 1MDB, which in itself was riddled with serious wrongdoing and made possible with the connivance of a prime minister called Najib Razak, his government, regulators, bankers, and lawyers.

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Nonfiction



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