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The 1Malaysia Development Berhad (1MDB) Scandal: Exploring Malaysia's 2018 General Elections and the Case for Sovereign Wealth Funds

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The 1Malaysia Development Berhad (1MDB) Scandal:

Exploring Malaysia's 2018 General Elections and the Case for Sovereign Wealth Funds

by

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Abstract

In 2015, the former Prime Minister of Malaysia, Najib Razak, was accused of corruption, embezzlement, and fraud of over \$700 million USD. Low Taek Jho, the former financier of Malaysia, was also accused and dubbed the ‘mastermind’ of the 1MDB scandal. As one of the world’s largest financial scandals, this paper seeks to explore the political and economic implications of 1MDB through historical context and a critical assessment of governance. Specifically, it will examine the economic and political agendas of former Prime Ministers Najib Razak and Mahathir Mohamad. In 2018, after the crimes of those involved in the scandal were exposed, Malaysia’s General Election (GE14) resulted in an unprecedented outcome. For the first time since the country gained independence, the opposition party won. This coalition party, Pakatan Harapan, won enough votes to defeat Barisan Nasional. The nuances of the general election, its outcome, and its subsequent relationship with the 1MDB Scandal, offer compelling insight to political implications for Malaysia. In addition to the political outcomes of 1MDB, the economic nature of the fund as a Sovereign Wealth Fund (SWF) is significant. SWFs are estimated to be utilized in over 40 countries worldwide, yet draw major attention for issues in transparency and accountability. This paper seeks to understand the political economy of SWFs, and what the world can learn from the 1MDB scandal.

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INTRODUCTION

In July 2009, Prime Minister Najib Razak and his finance minister Low Taek Jho, or Jho Low, launched the 1Malaysia Development Berhad (1MDB). This investment fund, owned and controlled by the Malaysian government, sought to serve as a “strategic development company driving new ideas and new sources of growth” (Al Jazeera, 2020a). Prior to officially becoming 1MDB, the fund was known as the Terengganu Investment Authority (TIA)— a Sovereign Wealth Fund (SWF) created to promote the coastal state of Terengganu. This 1MDB fund sought to attract foreign investments through strategic initiatives in order to establish long-term economic development. In 2015, 1MDB was under suspicion for corruption and fraud. The major players involved include former Prime Minister Najib Razak, and finance minister Low Taek Jho. This paper seeks to explore the political and economic implications for one of the world’s largest financial scandals by exploring historical context, political agenda, and developmental strategy.

Soon after the 1MDB scandal was exposed, the 2018 Malaysian elections historically resulted in the opposition coalition winning a majority in Parliament. The outcome of this election was unprecedented, and the first defeat of the former ruling party since the country gained independence in 1957. In addition to understanding the political timeline of events after the scandal, this study seeks to explore 1MDB as a Sovereign Wealth Fund (SWF). SWFs are defined as state-owned investment vehicles, and are currently utilized all over the world. SWFs draw major attention, however, for issues of transparency and accountability. Through Malaysia, this paper seeks to explore the political economy of SWFs and lessons learned from the 1MDB scandal.

THE 1MALAYSIA DEVELOPMENT BERHAD (1MDB) SCANDAL

The purpose of 1MDB was dedicated to contribute to the country's developmental goals, like achieving a developed status by 2020. The professional purpose of the fund was to attract development to Malaysia through foreign investments, by targeting investment opportunities in international finance centers, power plants, oil fields, and major development zones in Bandar Malaysia. This plan adopted a three-tier corporate structure made up of advisors, board of directors, and management. Najib, the Prime Minister, was also the minister of finance and chairman for the plan's advisory board. His role allowed him to serve as the sole signatory for all of 1MDB's investments (Case, 2017). Since the creation of 1MDB, however, global investigations have unveiled major corruption and money laundering. An estimated amount of \$4.5 billion USD is said to have been siphoned from 1MDB by major players involved (Azmi, 2020).

The 1MDB investment fund started as the Terengganu Investment Authority (TIA). In 2009, the King of Malaysia, who was also the Sultan of Terengganu, agreed to this transition. The TIA was initially developed to support and promote Terengganu, a federal coastal state in Malaysia. The TIA aimed to raise approximately \$3 billion USD in investments, made up by government bonds and collateralized oil payments to the state (Sidhu, 2009). In September 2009, 1MDB signed a deal with PetroSaudi International. The deal outlined a joint venture company that would invest \$1 billion USD for a 40% stake. PetroSaudi, an oil and gas company, had assets of over \$1.5 billion (Al Jazeera, 2020a). The joint venture with PetroSaudi was misleading in its portrayal as being connected to the monarchy. 1MDB secured permissions from the country's central bank to 'export' borrowed funds to PetroSaudi. According to the Sarawak Report, an online investigative journalism site, Bank Negara from 2009 to 2011 found that

1MDB diverted most of the funds to Good Star Limited—a ‘third party’ based in the Seychelles. Bank Negara found that the Good Star account was under Jho Low, who forwarded funds to Najib’s personal bank accounts (Sarawak Report, 2015).

By 2012, as an extension of 1MDB in the financial district of Kuala Lumpur, Najib launches the Tun Razak exchange. The Exchange 106, a 106-floor tower, remained the centerpiece of the Tun Razak Exchange development. The Exchange 106 development surpassed the Petronas Twin Towers in height at 451.9 meters, becoming the country’s newest, tallest building (Lee, 2019). Through this development, Najib presented a forecast that it would bring in \$856.8 million USD in direct foreign investments. Later this year, Goldman Sachs helped the country sell bonds to raise \$3.5 billion USD in power assets (Al Jazeera, 2020a). By the following year in March 2013, Goldman Sachs raised an additional \$3 billion USD for economic initiatives between Malaysia and Abu Dhabi.

In March 2013, 1MDB forms a joint venture with a subsidiary of Abu Dhabi’s sovereign wealth fund, Aabar Investments PJS. Through bond issues, the fund raises USD\$5.5 billion through real estate, energy markets, and the newly built Tun Razak Exchange. 1MDB additionally agreed to provide assets to guarantee the bonds; however, it pays Goldman Sachs, the underwriter of the process, an exorbitant amount (Case, 2017). The exchange for assets to Aabar Investments surprisingly never happens, and is instead diverted to a third party purposefully, and deceptively, named Aabar Investments PJS Ltd. The funds from this account are split between Najib and Aabar Investments. By 2016, after the scandal is brought to light by reports from the Sarawak Report, The Edge, and The Wall Street Journal, the Abu Dhabi government denied any connection with Aabar Investments PJS Ltd.

In addition to uncovered transfers with PetroSaudi and Aabar Investments, 1MDB overpays a conglomerate in August 2012. This conglomerate, Genting Group, is a Malaysian-based energy group that runs power plants in over five countries. After this payment, the group made large donations to charities linked to Najib. By 2015, in order to cover accumulated debts, 1MDB sold Edra Global Energy, a group under the Genting Group, to China General Nuclear Power Corporation at a loss. The overpayment on 1MDB's part forced the sale of Bandar Malaysia land holdings, their only other major asset, to China Railway Engineering Corporation (Case, 2017). The last transfer that tipped the scale in exposing 1MDB is the borrowing of over USD \$1 billion from a pension fund in order to develop a hotel management school in Kuala Lumpur. The money never went to building the school, but rather, was routed to Najib's personal bank accounts in 2015 and 2016 (Sarawak Report, 2016).

Abdul Wahid Omar, the minister to the prime minister's office, stated that 1MDB's 'model of low capitalization and huge borrowings' would not be sustainable (CNBC, 2016). This prediction came true in January 2015 when 1MDB misses their first loan payment of \$550 million USD. By March, under great public pressure, the government sets up a preemptive "special taskforce" to investigate the failures in loan payments. The outbreak of the scandal put pressure on Najib after reports by international media outlets released in mid-2015. These reports were accompanied by strong critique by Malaysians. Following the release of this information, Najib was accused of channeling funds from the country's development fund into his personal bank account. On July 2016, the United States began investigating a civil forfeiture complaint resulting in a combined amount of \$2.1 billion in traceable and embezzled assets from 1MDB. The scandal began with a controversial report by Sarawak Report, leaking email correspondences between Jho Low and foreign entities. Jho Low, a financier from Penang,

served as an advisee to the 1MDB board; however, had personal ties to Najib as a close friend to Najib's stepson. In addition to the Sarawak Report, The Rakyat Post also reported on Jho Low's central involvement in the scandal, siphoning over USD\$700 million from 1MDB's dealings with PetroSaudi into his personal bank account (Maksum, 2020). Riza Aziz, stepson of Najib and friend to Jho Low, allegedly diverted 1MDB funds as a movie producer to luxury properties and projects. One of these projects ironically include funding the Oscar-nominated film, "The Wolf of Wall Street," a film based on the successful stock broker turned criminal, Jordan Belfort. Aziz is the co-founder of Red Granite Productions, which was behind the production of the movie. US prosecutors have reported that Red Granite Productions also financed three other films based on embezzled and stolen funds from 1MDB (Reuters, 2019).

In 2019, the US Department of Justice (DOJ) reached a settlement to recover 1MDB assets. The corruption involved in moving the assets from the development fund to Jho Low's accounts were misappropriated and laundered throughout financial institutions in the US, Singapore, Switzerland, and Luxembourg. The assets are estimated to be worth over \$700 million USD, and the outcome of the settlement resulted in the US recovering, or assisting in the recovery, of over \$1 billion USD in assets. The money laundering under 1MDB represents the largest recovery under the DOJ's Kleptocracy Asset Recovery initiative (Department of Justice, 2019). To quote the Assistant Attorney General of the DOJ's Criminal Division, Brian A. Benckowski, he states:

"As alleged in the complaints, Jho Low and others, including officials in Malaysia and the United Arab Emirates, engaged in a brazen multi-year conspiracy to launder money embezzled or otherwise misappropriated from 1MDB, and he used those funds, among

other things, to engage in extravagant spending sprees, acquiring one-of-kind artwork and luxury real estate, gambling freely at casinos, and propping up his lavish lifestyle,”

In 2020, the Malaysian Anti-Corruption Commission (MACC) investigated and sought to freeze the PetroSaudi account in order to prevent \$340 million USD of 1MDB funds from being moved. PetroSaudi International sought to move these funds from their accounts in the UK. A Judge set the next hearing on August 28 between the Malaysian government and PetroSaudi's director, Taek Obaid. Obaid has previously been charged with criminal conspiracy with Najib upon having received illegal funds worth \$300 million USD from 1MDB (Azmi, 2020). A lawyer from MACC, Nizamuddin Hamid, stated that this would be the first step to freezing the account, and subsequently bringing the money back. The money attained by PetroSaudi was moved to an escrow account by Clyde & Co, an LLP in London. By September, the United States recovered \$1.1 billion in money laundering and bribery. The complaints filed in September 2020 to the Central District of California included traceable 1MDB assets and embezzled money. It started with four dozen promotional movie posters acquired by Riza Aziz with over \$4 million funds traceable to 1MDB, alongside an escrow account in the United Kingdom with over \$300 million in funds. This is where the aforementioned organization, PetroSaudi International, gets involved. This complaint was of funds found in an escrow account traceable to PetroSaudi International and their acquisition of fraudulent funds from 1MDB. More specifically, these funds were linked to PetroSaudi's chief executive officer Tarek Obaid (Department of Justice, 2020).

The amount of embezzled funds from 1MDB was at the expense of the Malaysian people. According to US Attorney Nicole T. Hanna of the Central District of California, this settlement will disallow Jho Low from access to millions of dollars. The United States, affirmed through

this DOJ investigation, will not be a safe haven for laundered funds. The International Corruption Squads of the Federal Bureau of Investigation (FBI) is committed to their mission against fraud of corrupt individuals and funds that belong to the Malaysian people. According to this settlement, all respective members have agreed to forfeit their assets pending forfeiture complaints by assisting and cooperating with the Justice Department. The assets outlined in this agreement include luxury real estate in New York, Beverly Hills, and London; a luxury hotel in the Beverly Hills; and millions in investments traceable to 1MDB (Department of Justice, 2019).

Despite credible investigation, Najib refuted allegations made by the Malaysian anti-corruption agency, Suruhanjaya Rasuah Malaysia (SPRM). Criticism for Najib's role in the 1MDB scandal additionally came from elite political members of the United Malays National Organization (UMNO). In 2015, a member of UMNO filed a civil lawsuit against Najib for his role in the scandal. Accusations and criticism against Najib has resulted in cabinet reshuffle. Political reshuffling has been met with controversy, especially for certain politicians like Deputy Prime Minister Tan Sri Muhyiddin Yassin, and ministers like Mohd Shafie Apdal (Minister of Rural Affairs), Hasan Malek (Minister of Domestic Trade), Dr. Ewon Ebin (Minister of Science, Technology, and Innovation, and Datuk Seri G Palanivel (Minister of Environment and Natural Resources), who have all been removed from their respective positions (Maksum, 2020).

HISTORICAL CONTEXT

On August 13, 1957, the peninsula formerly known as Malaya gained independence from the British. In September 1963, upon the suggestion of then Prime Minister Tunku Abdul Rahman, the British enclaves of South East Asia merged as one. Making up the Federation of Malaysia, these enclaves include Singapore, Malaya, Sabah, Brunei, and Sarawak. In 1965, two years after this agreement, Singapore became an independent state. As a constitutional monarchy, Malaysia's political is enriched with complexities that has a head of state known as

the Yang di-Pertuan Agong, or King. In addition to the King, who is elected on a 5-year basis by the nine Sultans, there is also the Parliament.

Regarded as one of the most stable polities in East Asia, Malaysia's political durability is attributed to its key institutions, durable authoritarianism, and hybridized political approach. Since the country's independence, Malaysia has been ruled by the Barisan Nasional (BN) coalition, comprising of the United Malays Nasional Organization (UMNO), the Malaysian Chinese Alliance (MCA), and the Malaysian Indian Congress (MIC). The three parties under the BN coalition represent the three major ethnic groups in Peninsular Malaysia, highlighting the significant role of ethnicity in politics. BN's governmental approach is consociational, seeking to share power and resources that represent the highly multi-ethnic Malaysian population. Each race is granted the space to practice their culture and faith, represented in Parliament and the Cabinet, and reflected in partisan approach. The goals of BN with the reality of governance, given the primacy of the Malay language, race, and religion (Abdullah, 2018). UMNO has worked to distribute patronage to "favored elites and ethnic Malay citizens, encouraging, respectively, their cohesion and mass-level loyalties" (Case, 2017). Malaysia's single party dominance has fused bureaucracy, while engaging the opposition through an electoral regime. Scholars like Schedler (2013) and Levitsky & Way (2010) have observed intrinsic resilience in this political approach. It limits, whilst not completely eliminating, civil liberties through manipulating elections and allowing for a certain level of political competitiveness. Malaysia's autocrats have developed a political apparatus on a large-scale, whilst avoiding the use of guns. The Royal Malaysian Police is confined to a 'professional' role, controlled and civilized, yet powerful enough to contain dissidence. The normalcy of resilience that Malaysia has balanced

through authoritarianism has been rattled by the 1MDB scandal, altering elite and mass level behaviors (Case, 2017).

Prior to 2018, six men held leadership in UMNO, leading the country as Prime Minister. Of the six, Prime Minister Mahathir Mohamad and Najib Tun Razak play a central role. As Prime Minister for 22 years upon winning the seat in 1981, Mahathir's 'iron fist' altered the trajectory of Malaysian politics. As the son of the country's second Prime Minister, Tun Razak, Mahathir's long political experience started in a minister position at a young age. Mahathir's leadership resulted in the country's successful navigation of the Asian Financial Crisis in achieving economic growth. At the same time, however, Mahathir's tightened grip in his position has led to abuses of power, allegations of cronyism, limitations on individual freedom, and suppression of dissent. Despite his authoritarian tendencies, Mahathir's overall reputation as a statesman is positive.

Throughout the years of Mahathir's governance, two major rifts within UMNO resulted in transforming the party. The first issue occurred between 1987 and 1998 with Tengku Razaleigh Hamzah who contested against Mahathir for the Prime Minister position. Despite Mahathir managing to defeat Razaleigh, the ideological rift resulted in a partisan split. Razaleigh's new opposition, Semangat 46, was led by other UMNO defectors. Prior to this, Razaleigh played an important senior role in UMNO, contributing to the Finance Ministry in Mahathir's administration. Semangat 46 never overthrew UMNO and BN, but played a critical role in shaping the direction of Malaysian politics as the first Malay-Islam opposition. The second conflict that occurred was in 1998 with Anwar Ibrahim, the Deputy Prime Minister. Anwar was expelled from UMNO after governmental allegations that he abused his power and partook in homosexual acts illegal in Malaysia. Critics at the time did not find Anwar's

expulsion, and imprisonment, surprising given the brewing tension between Anwar and Mahathir. Many Malaysians, however, felt that these allegations were created on the basis of political motivation. Because of this, Anwar was supported by many Malaysians, and Malays, who thought he was committed to democratic principles. While Anwar was imprisoned, his wife formed the Parti Keadilan Rakyat, or People's Justice Party (PKR), and the three parties band together as the primary opposition against UMNO-BN (Abdullah, 2018).

Prior to the 1MDB scandal, the public sentiment towards politics began growing tense, with a rising sense of sympathy for the opposition party. Support for Najib's administration began to progressively decline, gaining recognition as "authoritarian and fully corrupt" (Maksum, 2020). Besides the Malay community, the movement largely gained public support. Despite the movement's popularity, Barisan Nasional's power on all levels of Malaysian government made it difficult to remove Najib. In addition, Najib's popularity was also connected with economic decisions. The controversial implementation of the Good and Services Tax (GST) implemented taxation on all types of consumer goods. The GST policy sought to reduce dependence on revenue from oil, but resulted in a heavy burden from citizens following price increase. University students in a survey conducted in 2015 were not in support of the GST policy, arguing that urban and rural communities were negatively impacted (Irwan, 2015).

The strongest proponent against 1MDB and its dealings came from Anwar Ibrahim, a political opposition leader (Sipalan, 2010). Anwar Ibrahim is a Member of Parliament and currently the leader of Pakatan Rakyat, the Opposition Coalition Party. He led as Deputy Prime Minister of Malaysia between 1993 and 1998, and has previously served as a Minister of Finance, Culture, Agriculture, Education, and Youth and Sports (Georgetown University, 2019). Despite being Mahathir's political protégé and favorite to succeed, tensions arose between the

two on how to best address the Asian Financial Crisis. With Dr. Mahathir's diminishing public popularity and increased likelihood of replacement by Anwar, a smear campaign started against Anwar. Anwar was shortly dismissed on allegations of sodomy and corruption with a sentence of nine years in prison (Trowell, 2015). With great skepticism of his charges being politically motivated, Anwar uses dissenting momentum to create the Parti Keadilan Nasional or National Justice Party (KEADILAN) as a means of reforming the system. In 2003, Mahathir steps down as Prime Minister after 22 years in the position, and four years after his release, Anwar is accused again of sodomy. Anwar states that the accusations were aimed to remove him from winning the prime minister position against Najib Razak, another protégé of Mahathir in the 2013 election (Al Jazeera, 2020).

On May 9, 2018, Malaysia faced a historic election after Barisan Nasional (BN), the party in power since the country's independence in 1957, lost (Lee, 2018). The notion of the party losing was inconceivable, despite the unprecedented nature and political consequence from 1MDB. In the documentary *State of Fear*, Linton Besser, the narrator and reporter, stated that millions of "ordinary Malaysians are watching the unfolding drama with wary resignation" (Besser et al., 2016). Julian Lee of RMIT University in Australia published an opinion piece on 1MDB, contrasting the 'wary resignation' that Besser was referring to in the documentary; more accurately, the 1MDB scandal was a grotesquely scaled manifestation of the deeper injustice and interconnected problems in Malaysia (Lee, 2018).

Critical Review of Developmental Agenda

Mahathir: Wawasan 2020 & Anti-Democracy

During Mahathir's first tenure, he led a major developmental program known as Wawasan 2020 (or Vision 2020). Wawasan 2020 was a populist 30-year plan to achieve the objectives of the country's National Development Policy (NDP) created in 1991. The plan

proclaimed a vision for political democracy and competitive capitalism, in contrast with Mahathir's legacy of authoritarianism and crony capitalism. Introduced by the end of the Cold War, Wawasan 2020 was viewed as Mahathir's support for neoliberal globalization. According to John Hilley, UMNO and BN under Mahathir sought to "forge a hegemonic network that 'extended outwards and beyond conventional party arrangements, with chains of influence ranging from corporate elites to the BN media, from party affiliated to Islamic fora, voluntary bodies and a panoply of NGOs'" (117-118). The regime sought to accommodate for a network of hegemony, attempting to balance sectoral interests with the broader power structures (Juego, 2018).

Mahathir's approach to economic development was distinct, in that it attempted to blend nationalist projects with capitalist impulses (Khoo, 2003). The purpose of the regime sought to expand opportunities for the local capitalist class while also meeting the requirements of the ruling elites. It can be suggested, therefore, that Mahathir attempted to adopt a 'heterodox economic policy,' as coined by a 2018 study, by focusing on neoliberal industrialization via authoritarianism and nationalism. Mahathir focused on the need for gradual liberalization, while also acknowledging the significance of protectionism. In a 2011 blog post, as a private-citizen, Mahathir denounced G20's double standards by discussing the need for competition balanced with primary protectionist policies that support Malaysian industry. The source of strength for elite hegemony and market order came from greater state regulation and repression, resulting in an interdependence between elites, the state, and the market. During the 1997-1998 Asian financial crisis, the tendencies of authoritarianism was especially pronounced via repressive laws, gerrymandering, and suppression of public protests (Juego, 2018).

Mahathir's variation of democracy misaligned with the authoritarian tendencies that ensured the success of Wawasan 2020. In 1970, *The Malay Dilemma* showcases Mahathir's backwards emphasis on ethnicity to attain modernization. In this speech, Mahathir discusses two 'new' dilemmas faced by the ethnic Malay population in Malaysia. The first dilemma prompted Malays to ask whether or not they should do away with "the crutches [e.g. affirmative action] that they have gotten used to, which in fact they have become proud of." In addition, the second dilemma frames the "risk of condemnation for not being democratic," asserting Malaysia's commitment for democracy (Mahathir, 2002). Mahathir's loyal belief in Asian Values is presented by the prioritization of economic development over political democracy, by warning Malaysians against democratization for the sake of development. He states that the "dilemma that the Malays and the people of Malaysia face is whether we should in the name of democracy allow the country to be destroyed, or ensure that people are not subjected to manipulations to the point where they will use democracy to destroy democracy" (Juego, 2018). Mahathir's message in *The Malay Dilemma* is complimented by the harassment of opposition throughout his regime.

Najib: 1Malaysia & Anti-Democracy

Abdullah Ahmad Badawi served as the 5th Prime Minister of Malaysia between Mahathir and Najib. When Najib took control in 2009, his premiership embodied UMNO's political relevance in ensuring the interests of ethnic Malays and Islam. In order to balance his ambitions to maintain Malay privileges and overcome the recession, Najib strategically launched '1Malaysia: People First, Performance Now.' This strategy became the center of his political career, seeking to articulate authoritarian liberalism through competitive economic liberalization, market reforms, and fiscal discipline. As a response to China's emergence as an economic power, the 2008 economic crisis, and the 2014 oil crisis, Juego (2018) frames 1Malaysia as an "electoral campaign and political agenda, a socio-economic development strategy, and a crisis response."

In addition to the economic goals that 1Malaysia sought to achieve, its concept was to primarily “foster unity amongst the multi-ethnic rakyat of Malaysia” (Najib, 2009a). 1Malaysia sought to promote national unity through social, and economic, reform. The reality behind the slogan, however, lent to repressive means against dissent and opposition. Najib, in a 2009 speech, stated a pressing need to “renew democracy” through a “new national discourse on the principles of transparency and accountability” and “respect and fairness in the public dialogue (Najib, 2009b). The political ‘doublespeak’ that ensued during Najib’s premiership is evident in the concept of 1Malaysia’s illusion of inclusivity for all communities. UMNO’s firm belief to ensure and preserve Malay and Islamic privileges on a governmental and social level misaligned with Najib’s rhetoric for communal ethno-religious unity. In the Bersih 2.0 demonstrations for reform, Najib denied civil liberties by violently keeping opposition at bay (Juego, 2018). The rally, held in 2011, acted as a follow-up to the 2007 rally for clean and fair elections. Supported by Pakatan Rakyat, this coalition was deemed illegal with a vow to stop activity that did not have a permit. This rally saw over 20,000 attendees and activists. Police detained hundreds in attendance, and actively utilized teargas (Associated Press in Kuala Lumpur, 2011). Najib’s threats against Bersih, in addition to his pressure against free press, persisted throughout his premiership all whilst under the guise of 1Malaysia and its mission.

POLITICAL AFTERMATH

Following the 1MDB scandal, the future of Barisan Nasional (BN) has been greatly questioned. Many politicians from BN view the coalition to be going through a difficult situation. The Barisan Nasional Coalition has been in power since the country’s independence. UMNO, the United Malays Nasional Organization, is Malaysia’s largest political party, and a member of the Barisan Nasional (BN) Coalition. After the scandal, the Deputy Prime Minister of

Malaysia, Muhyiddin Yassin, stated that if the “election is going to be held tomorrow, [it is] impossible to win.” This statement demonstrated the grave situation that BN was in, resulting in Dr. Mahathir Mohamed from quitting UMNO. Dr. Mahathir Mohamad is a significant player in Malaysian politics, previously serving as Prime Minister from 1981 to 2003. His status as a “senior politician” in Malaysia resulted in shock waves upon his resignation to UMNO, largely due to the 1MDB scandal and the decline of public trust (Maksum, 2020).

Political Pressure Against Najib

Mahathir’s resignation from UMNO after the 1MDB scandal greatly impacted Najib, especially given Mahathir’s mentor-mentee relationship with Najib. Najib’s response to calls for resignation included strategies to defend UMNO on the state level. One of these strategies included Najib’s political removal of politicians related to Mahathir. Najib removed Dato Seri Mukhriz Mahathir, the Chief Minister of Kedah, who is also Mahathir’s biological son. According to Mukhriz, he lost majority support from the Kedah Legislative Assembly, following a “secret ballot by all BN and opposition members.” Political pressure faced by Najib resulted in political punishment for Mahathir sympathizers.

Wan Azizah Wan Ismail, a Malaysian opposition leader and president of the opposition coalition Pakatan Rakyat (PR), urged for the formation of an independent entity to investigate 1MDB. Based on public response, she understood that Malaysians were not satisfied with Najib’s response and outcome of the 1MDB scandal. Ismail’s sentiment encouraged Najib’s Deputy Prime Minister, Muhyiddin Yassin, to assert the importance of working together amidst the scandal, regardless of political partisanship. This invoked a new political road map for Malaysia, where UMNO and BN’s decade-long domination was at threat. Political power was traditionally waged between BN and PR, with PR being made up of three dominant parties: Parti Keadilan Rakyat (PKR), Parti Islam Se-Malaysia (PAS), and Democratic Action Party (DAP).

Najib's decision to "sweep UMNO traitors" created a new dynamic in Malaysian politics. In 2016, after Mahathir steps down, he, his son Mukhriz Mahathir, and former UMNO members create a new party. The Parti Pribumi Bersatu Malaysia, or Bersatu, is established for those who are dissatisfied with the progress and performance of UMNO. Despite their hope for change, public sentiment and support for the formation of the new political party is inconclusive. Datuk Seri Haji Mohd Shafie bin Haji Apdal is another political victim targeted by Najib after the 1MDB scandal. As former UMNO Vice President, like Bersatu, he creates a new Sabah-based party called the Parti Warisan Sabah, or Warisan. Unlike Bersatu, Warisan is embraced by the people of Sabah with nearly 7,000 membership applications within weeks. Warisan sought to replace Parti Pembangunan Warisan Sabah (Sabah Heritage Development Party) which was established in 2013 (Maksum, 2020).

Malaysia's 2018 General Election (GE14)

The Malaysian General Election in 2018, also known as GE14, took place on May 9th, 2018. Since the country's independence in 1957, Malaysia has used a Westminster parliamentary model to moderate the electorate. Through this model, the government is elected through a simple majority system. The three most prominent political parties in GE14 was Barisan Nasional (BN), Pakatan Harapan (PH), and Parti Islam Se Malaysia (PAS). This election was particularly unique, in that PH or Pakatan Harapan was made up of four individual political parties. These four parties—Parti Keadilan Rakyat (PKR), Parti Bersatu Pribumi (PPBM), Parti Amanah Rakyat (PAN), and the Democratic Action Party—attempted to form a united coalition under Pakatan Harapan ("coalition of hope").

Malaysia's political parties are largely based on ethnic lines, which remain a sensitive issue in the face of electoral competition. The country follows a tradition of Malay-dominated

politics, largely resulting in consociationalism—accepting supremacy from Malays and their religion of Islam. Consociationalism has shaped the country for decades, ruled by a largely Malay party, alongside Chinese and Indian partner parties known as the coalition Barisan Nasional. It was not until the last decade that an alternative party was fathomable. The 2018 elections made this concept a reality, however, when Barisan Nasional lost (Moniruzzaman, 2019). What makes this election historic lies in the fact that this is the first time since the country’s independence that UMNO and BN have lost their control over the government.

Table 1: Results of the 2018 General Election¹

| PARTY | BERSATU <i>PAKATAN HARAPAN</i> | UMNO <i>BARISAN NASIONAL</i> | PAS <i>GAGASAN SEJAHTERA</i> |
|---------------|---------------------------------------|-------------------------------------|-------------------------------------|
| LAST ELECTION | 68 | 133 | 13 |
| SEATS WON | 113 | 79 | 18 |
| SEAT CHANGE | ↑ 45 | ↓ 54 | ↓ 3 |
| POPULAR VOTE | 5,518,638 | 4,080,797 | 2,051,188 |
| PERCENTAGE | 45.68% | 33.80% | 16.99% |
| SWING | ↑ 10.82% | ↓ 13.58% | ↑ 2.21% |

The results of this election is especially critical in that the outcome was unexpected. The ruling coalition did not expect a defeat, nor did the opposing coalition expect a stark victory.

¹ Moniruzzaman, Monir. “The 13th Malaysian General Election: Uncertainties and Expectations.” *Intellectual Discourse*, vol. 21, no. 1, 2013, doi:26 (1):207-228.
The Star . “GE 14.” *14th General Election Malaysia (GE14 / PRU14) - Results Overview*, 2018, election.thestar.com.my/.

Surveys conducted prior to the election by non-governmental and governmental institutions similarly represent the public's surprise, and the inability to forecast such results (Moniruzzaman, 2019) In this election, Mahathir stressed that Najib's role was "now over," stating in a press conference that "we need to form a government now, today." Upon winning, when asked if action would be taken against Najib's role in the 1MDB scandal, Mahathir stated that "he will not seek 'revenge,' but rather, hopes to 'restore the rule of law'" (AlJazeera, 2018).

The "Mahathir Effect"

Previous literature like O'Donnell & Schmitter (1986) explore 'transitology,' defined as the end of a 'transition paradigm.' Scholars debate on the rise and fall of authoritarian powers, specifically assessing electoral/competitive authoritarianism. This type of authoritarianism is unusual, in that it allows for contest in elections. These elections are often unfair, yet allows for contesters to win seats unlike other monarchical or military regimes. A potential reason for the fall of an electoral authoritarian system can occur as a result of poor economic performance, which Mahathir's BN managed to undergo despite the financial crisis in 1997. In addition to economic causes, the fall of authoritarian powers can also be explained through the strength of opposition (Greene, 2010). A distinct alternative ideology can penetrate, even dismantle, an existing hegemony. Strategic coalitions that are able to successfully pull this off require tactical alliance, persuasive ideology, or simply electorally outdoing the current incumbents (Abdullah, 2018).

A 2019 study explores the 'Mahathir effect' in order to understand the role of credible personalities in regime transition by highlighting the outcome of Malaysia's 2018 election. Mahathir was uniquely positioned, in this election, to leverage his credibility as the face of opposition. He was a former premier, despite controversies, contributing to Malaysia's economic development in a historic way. In addition to Mahathir's reputation, coming out of his retirement

at 92 years old added gravitas to the power-move that he was making. Despite his previous authoritarian tendencies, Mahathir in this election was “reimagined as a champion of democracy and freedom” (Abdullah, 2018). In addition to public sentiment, the fact that the three other parties in the coalition (PKR, DAP, and Amanah) agreed to Mahathir as the face of PH spoke volumes. PKR, DAP, and Amanah have all previously fought against Mahathir as a corrupt dictator. This is especially significant, given that the three leaders of PKR, DAP, and Amanah were previously imprisoned by Mahathir. Despite previously-held beliefs, leadership under Mahathir was viewed as the only chance to topple UMNO and BN.

The Merdeka Center, an independent research group in Malaysia, estimates that the 2018 elections saw a 10% swing in support of BN from the previous election. Analysis has demonstrated that there has been a national decline for BN support, among all races including Malays. An example of this would be in Langkawi, a district located in northwest Malaysia, that has served as a BN stronghold for years. In this election, however, Mahathir managed to win Langkawi’s favor. The former Prime Minister was associated with developing Langkawi as a tourist destination, whilst additionally garnering enough votes from other regions of Malaysia like Melaka, Penang, Kuala Lumpur, and Johor. Hesitancy to support Pakatan Harapan, especially for Malay voters, was prominent until mention that it was Mahathir’s party. The impact that Mahathir had on Malay voters cannot be underestimated in the outcome of this election. This support was encouraged by senior members of UMNO who threw their support for Pakatan Harapan. These members, who worked for Najib’s cabinet, also previously worked with Mahathir when he was in power. These key personas include Muhyiddin Yassin, Mukhriz Mahathir, Shafie Apdal, Rais Yatim (former Minister of Affairs), Rafidah Aziz (former Minister of Trade and Industry, and Tun Daim Zainuddin (former Finance Minister) (Abdullah, 2018).

Current Political State

The GE14 was seen as a historical turning point for Malaysia, with UMNO-BN losing the power they have had for the last 60 years. The coalition's win ignited a wave of democratic hope for change. In 2020, however, two years after GE14, the new government is no longer in power, and the old rule is back. After political turmoil in early 2020, Muhyiddin Yassin replaces Mahathir in becoming the new Prime Minister. Muhyiddin is not an unknown figure in Malaysia, having previously worked with Mahathir and Anwar Ibrahim to create the Pakatan Harapan coalition. In what was supposed to be the party that rallied against corruption and the old political system, 2020 saw Muhyiddin and 30 other members of Parliament forming a new alliance with the old party—"a shattering blow to those who saw the 2018 election as a watershed, a new beginning for the country" (Head, 2020).

The downfall of Pakatan Harapan can be explained from the top-down. Anwar Ibrahim and Mahathir, two major players in the creation of the coalition, experienced a tense relationship that started 30 years ago. As previously mentioned, Anwar was Mahathir's protégé at one point, and was also previously imprisoned by Mahathir. Personality clashes, and the messy relationship between both politicians, were arguably bound to result in differing approaches to the handling of the coalition (Head, 2020). Soon after winning the election, Pakatan Harapan faced great criticism. Much of these criticisms were rooted in the ambitious promises by the party, in spite of major financial constraints. According to The Star, voters felt like Pakatan Harapan consistently assigned blame to the previous UMNO-BN government whenever faced with challenge or struggle, failing to follow through. An example would be the promise to abolish high way tolls, and the unpopular GST implementation by Najib. An analyst and fellow from the Singapore Institute of International Affairs, Oh Ei Sun, notes that the Pakatan Harpan faced a cycle that led

to an inherent weakness in structure amidst ambition. Oh states that although “PH cited insufficient funds, due to the previous government being spendthrift, the people will still blame them.” A professor at the International Islamic University in Malaysia, Danial Yusof, explains that internal weaknesses with the party led to its demise. The ideological “chasm contributed to the breakdown in strategic and constructive communication,” leading to distrust in institutions and leaders (Aruna, 2020).

SOVEREIGN WEALTH FUNDS

Sovereign wealth funds (SWFs) have grown internationally as major sources of cash revenue through investments. By definition, SWFs are state-owned investment vehicles for various global assets. The purpose of SWFS are to stabilize governments, export revenue, accumulate savings for future generations, offset future lack of natural resources, and management of foreign reserves. There lacks a common consensus on the definition of SWFs, but in 2008, the International Monetary Fund defined SWFs as having five potential qualifiers: (1) the ability to stabilize funds to insulate an economy from price swings, (2) the saving of funds for future generations, (3) reserving investment funds to manage foreign exchange reserves, (4) development funds that achieve socioeconomic objectives at home or abroad, (5) a contingent pension reserve fund (Truman, 2011). SWFs have been utilized as far back as 1854 in Texas, and again in 1876, in order to benefit educational institutions. SWFs were utilized by Kuwait in 1953 in order to manage the country’s oil revenue surpluses (Alhashel, 2014). Presently, the estimated use of SWFs are difficult to pinpoint, given diverse national regulations differing between countries. In 2012, however, it is estimated that there are over \$5 trillion USD in total assets of these funds. At first glance, sovereign wealth funds seem like excellent sources of streaming and ensuring steady cash flow for long term investments. Limitations, however,

include lack of transparency and political motivation. Conflict of interest often occurs when political leaders are on boards of sovereign wealth funds, and are tempted to “shore up domestic firms as they succumb to political pressure” (Bernstein, 2013). This, in the case of Malaysia, was exactly what happened with 1MDB. According to a US Senate Hearing in 2008, Senator Lugar makes the point that the expansion of SWFs are not inherently negative, but that political interests of foreign government creates a potential for succumbing to political pressure. In the same hearing, a potential solution was noted by Senator Biden in support of putting pressure on SWFs to invest in commercial reasons, as opposed to political reasons (United States Senate). This potential solution would require greater accountability, collaboration, and transparency on an international scale.

Political Economy of SWFs

In the last two decades, SWFs have grown ten-fold. Growth in SWFs have been the result of the rising price of oil, concentrated in countries like Kuwait, the United Arab Emirates, and Norway. China has also retained foreign currency through large trade surpluses. Due to data restriction, there lacks previous literature on the issue of agency in SWFs. The intensity of scrutiny, therefore, has heightened in the last few years upon controversies surrounding investments related to SWFs. Increased visibility and transparency through publicizing pool sizes, investment types/strategy is a potential solution to curb public anxiety (Bernstein, et al., 2013).

On the surface, the utilization of SWFs seem like a prime solution for nations with high variance in public revenues to stabilize, maintain, and ensure cash flows. SWFs offer nations the opportunity to provide resources for long-term investments by relying on national assets like commodity trade. Countries, however, may fall prey to the “Dutch disease,” relying on short-

lived fortunes from natural resources and weakening the economy in the long-run. Due to the exploitation of resources in the short-run, the Dutch disease results in exchange-rate overvaluation. Governmental leaders may feel political pressures by shoring up domestic firms, passing up on “high net present value investments in other firms and creating product market distortions by favoring connected or poorly performing firms” (Bernstein, et al., 2013). The relationship between political agenda and SWFs are high, resulting in greater opportunity for nepotism and corruption.

SWFs have limitations that may distort a country’s economy, while also globally impacting other countries. In the specter of SWFs, critics suggest that the use of these funds are “neither democratic, nor share the traditions, political systems, or legal matters of many OECD countries” (Yi-chong, 2010). A 2007 study suggests that they are ‘the new bogeyman of global finance,’ in the lack of transparency (Plender, 2007). More than two thirds of existing SWFs are located in countries considered less financially open than OECD countries, with more than 90% of overseas investment from SWFs going to OECD countries. The critique for SWFs lie in the fear that they may exist as a threat to the national security, and economy, of recipient countries. The “threat is more perceived than real” (Lyons, 2008), however, the perception and fear of SWFs persist. This challenge impacts political economy on a global scale, given the interconnectedness of SWFs.

The Santiago Principles

Around 2006, the emergence of SWFs resulted in the Dubai Ports World controversy in the US. The collective response to this controversy resulted in the Santiago Principles, or Generally Accepted Principles and Practices of SWF. The Santiago Principles as a policy response to SWFs advocate for 24 generally accepted practices endorsed by members of the International Forum of Sovereign Wealth Funds (International Forum of Sovereign Wealth

Funds, 2008). In 2011, the International Forum of Sovereign Wealth Funds (IFSWF) released a report on the experience of members in applying the Santiago Principles. The report was a voluntary self-assessment in applying the principles to their SWFs. The Peterson Institute for International Economics commended states for taking the survey, yet outlined a principal flaw in the exaggerated extent of compliance. The report indicated the 95% of the members fully or partially acted consistently with the Santiago Principles, yet the IFSWF reported a discrepancy in responses. Since responding is voluntary, concerns arise in non-response easily equating to non-compliance (Bagnall, 2011).

Table 2: 2011 Compliance with the Santiago Principles²

| <i>Country</i> | <i>Fund</i> | <i>SWF Scoreboard</i> |
|------------------------|--|-----------------------|
| <i>Abu Dhabi (UAE)</i> | Abu Dhabi Investment Authority | 78 |
| <i>Australia</i> | Future Fund | 93 |
| <i>Azerbaijan</i> | State Oil Fund | 72 |
| <i>Bahrain</i> | Mumtalakat Holding Company | 28 |
| <i>Botswana</i> | Pula Fund | 64 |
| <i>Canada</i> | Alberta Heritage Savings Trust Fund | 73 |
| <i>Chile</i> | Economic and Social Stabilization Fund and Pension Reserve Fund | 66 |

² Bagnall, Allie E, and Edwin M Truman. "IFSWF Report on Compliance with the Santiago Principles: Admirable but Flawed Transparency." Peterson Institute For International Economics , www.piie.com/sites/default/files/publications/pb/pb11-14.pdf.

| | | |
|----------------------------|---|----|
| <i>China</i> | China Investment Corporation | 74 |
| <i>Ireland</i> | National Pensions Reserve Fund | 95 |
| <i>Korea</i> | Korea Investment Corporation | 79 |
| <i>Kuwait</i> | Kuwait Investment Corporation | 75 |
| <i>Mexico</i> | Mexico Oil Income Stabilization Fund | 40 |
| <i>New Zealand</i> | Superannuation Fund | 97 |
| <i>Norway</i> | Government Pension Fund | 98 |
| <i>Qatar</i> | Qatar Investment Authority | 18 |
| <i>Russia</i> | Reserve Fund and National Wealth Fund | 47 |
| <i>Singapore</i> | Government of Singapore Investment Corporation | 81 |
| <i>Singapore</i> | Temasek Holdings | 84 |
| <i>Timor Leste</i> | Petroleum Fund | 73 |
| <i>Trinidad and Tobago</i> | Heritage and Stabilization Fund | 81 |
| <i>United States</i> | Alaska Permanent Fund | 94 |
| <i>SWF Scoreboard</i> | | 72 |
| <i>IFSWF Report</i> | | 80 |

The assessment of the report, despite its deficiencies, has proved to be substantive and generally consistent. According to The Peterson Institute for International Economics, the 16

principles can be compared between the IFSWF report and the SWF scoreboard, in that the compliance ranking seems to be generally consistent. The report is useful to countries in assessing their own management of SWFs, offering an opportunity to assess their performance with the Santiago Principles. The Santiago Principles do not aim in itself to increase transparency in SWF, yet the report clearly indicates the value of transparency on state reputation (Bagnall, 2011).

Transparency in SWFs

Existing literature on this issue consist of mixed reviews on the intentions of states that utilize SWFs. Some scholars find that SWFs are utilized as a purely economic means of investment (Avendano & Santiso 2009, Balding 2008). Alternatively, other studies like Chhaochharia & Laeven (2008), deduce that SWFs are partly motivated by political factors as well. These concerns have been fueled by the nature of SWFs and their lack of transparency. The Santiago Principles have positively impacted the outcome of state transparency on the basis of reputation. Public perception, however, on the issue of transparency continues to play a central role in the progress of SWFs. SWFs have attracted financial and political attention primarily due to their size. SWFs are controlled by the government, who are not usually participants in finance or its standards. The opacity, and size, of SWFs have resulted in scrutiny behind the motives of certain investments and its potential to disrupt economic, financial, and political ongoings. There are a variety of objectives that SWFs take on, especially as it continues to evolve, but the common factor in all SWFs is the fact that they are established and monitored by the government. In 2016, Angela Cummine makes the case between individual wealth and the national economy. The major aspect of this argument lies in the crucial need for transparency and accountability in SWFs in order for it to be widely accepted (Stone, 2016).

According to the SWF Institute in 2015, Asia's SWFs account for 39% of the world's total SWF assets. A major aspect of SWFs financed in the region is linked to Asia's accumulation of foreign exchange reserves, primarily a response to the 1997 Asian Financial Crisis. After the crisis, many countries in Asia sought to continue increasing their ownership of foreign exchange reserves in preparation for a future crisis. Many governments, therefore, have created greater yields in equity and corporate bond assets by further investing in foreign exchange reserves. In the context of SWFs, the Asian region has received unique skepticism in corruption and losses motivated by "foreign policy objectives rather than economic considerations." In general, Asian funds have performed to the standards of the Santiago Principles, with the exception of Malaysia, Vietnam, and Brunei which performed below the global average in 2015. The Federal Bank of San Francisco reported that SWFs in Asia continue to broadly adhere to the Santiago Principles, yet do not match the means of transparency in comparison to Norway's Oil Fund. Norway's SWF models transparency through disclosing assets, returns, and performance publicly and to independent auditors. Progress to ensure that SWFs remain in adherence, by even incentivizing transparency beyond just adherence, continues to be an area of research for future literature (Borst, 2015).

A 2018 study by Zhang on the transparency of SWFs in China and the Middle East offer a compelling counter-perspective. In addition to increased transparency as an improvement for SWFs in Asia, the study argues for legitimacy of SWFs in spite of low transparency. In developed Western countries, the relationship between political motive is incompatible with free market systems. Even when an enterprise organization operates and possesses high autonomy, it is assumed that they seek to target and serve political interests through a free market system. SWFs in non-Western states are seen as violating market principles, and a threat to developed

countries “who think special restrictions upon these funds, one of which is transparency requirement, are necessary.” Unlike publicly held sentiment that SWFs are enemies of the market, perspective on SWFs should be altered to demonstrate how SWFs effectively combine market and state. The development of SWFs in an international financial market assumes, and proves, that countries support a market economy. In addition, transparency in SWFs may not guarantee motives that are purely economic. An example would be Norway’s Global Pension Fund, highly ranked in transparency measures for its public disclosure. The investment decisions made on behalf of this fund are not purely economic, but also non-economic (e.g. human rights, environmental). Transparency, therefore, may not be the best sole indicator for measuring the objectives of SWFs. It may be imprudent, in fact, to assume that good and bad funds can be measured on the basis of transparency without considering contextual motives of given states (Zhang, 2016).

1MDB and Sovereign Wealth Funds

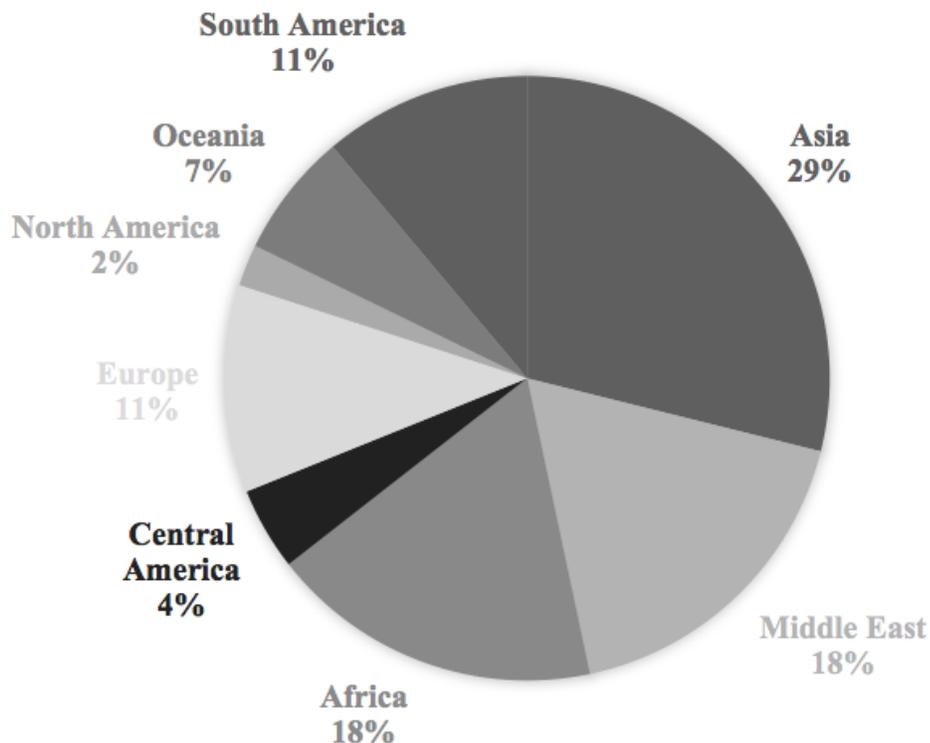
The Terengganu Investment Authority (TIA) is a sovereign wealth fund that transitioned in 2009 to the federal entity known as 1MDB. 1MDB’s lack of economic transparency resulted in great skepticism prior to actual investigations of corruption. In Malaysia, sovereign wealth funds like 1MDB are utilized as a long-term strategy to enhance foreign direct investments and foreign partnerships. Operationally, the development fund was managed under the Malaysian Ministry of Finance. As an SWF, 1MDB was established due to state budget surpluses following favorable macroeconomic fiscal and trade positions (Rozanov, 2005). The growingly complex and fast-paced nature of global financial markets have diversified the indication of financial stability. Not only does financial stability depend on solid asset management, but also on investment strategies. As aforementioned, differing policies depending on national laws have

made it difficult to gain access to information on sovereign funds. Only a handful of published information indicate the number of assets, liabilities, and strategies used during an investment. The lack of transparency emerges a larger issue of regulation, with an emphasis on trusted intermediaries to help nations regulate these funds. As sovereign funds grow in popularity, they grow effectively and increasingly unregulated (Johnson, 2007).

In understanding the consequential outcomes of IMDB, the structural and economic integrity of sovereign wealth funds come into play. Despite the lack of transparency and increased likelihood of nepotism, the role of ownership and objective of sovereign wealth funds are especially interesting. These funds have an objective of maximizing financial return for long-term public policies, yet its quasi-public structure exposes them to socio-political influence (Bernstein, 2013). The 2013 study on the Investment Strategies of Sovereign Wealth Funds offered a conclusion that sovereign wealth funds with greater involvement of political leaders who are also a part of a fund's respective management are associated with strategies that often favor short-term economic goals. This directly contrasts the overall mission or objective of sovereign wealth funds, but demonstrates the significance and magnitude of political influence.

A 2014 study in the *Journal of Islamic Business and Management* found a positive relationship with the rise of SWFs in Muslim countries and lacking adherence to the Santiago Principles. According to the Truman Scoreboard, Libya, Qatar, Sudan, Nigeria, Oman, and Brunei are some of the least compliant countries to the Santiago Principles. The outcome of compliance is the same for the Linaburg-Maduell Transparency Index (LMTI). Currently, most of the existing SWFs are located in the Middle East and Asia which is home to a majority of Muslim countries.

Figure 1: Sovereign Wealth Funds by Region³



The Santiago Principles set out an ambitious aim to promote financial stability through legal objectives, institutional framework, governance framework, and an investment/risk management framework. As aforementioned, The Santiago Principles is notably voluntary. This means that adhering to the principles are left to the discretion of individual states. The Truman Scoreboard for Best Practices was constructed by Truman and Bagnall (2013) in order to measure governance, accountability, and transparency. The scoreboard includes 33 elements that relate to a fund's structure, governance, transparency/accountability, and behavior. In applying this scoreboard to Muslim-specific countries, no SWF made it to the top-5 group. Among the top-10 SWFs in Muslim countries, Azerbaijan was the only country that made the list,

³ Sovereign Wealth Fund Institute, SWFI News, 2021, www.swfinstitute.org/. See appendix for country categorization by region

respectively in 8th place. This analysis observes good transparency, governance, and accountability as serious issues of consideration for Muslim countries. In addition, overall progress toward accountability and transparency has been slow, with only 6 SWFs in Muslim countries increasing by a single digit in 2007. The primary concern in adherence without concern of public pressure is a limitation within the Santiago Principles, especially given the variance in public disclosure (Habib, 2014).

Lessons from 1MDB

In 2016, the Public Accounts Committee (PAC) published a report on 1MDB by reviewing the management, administration, and handling of 1MDB's Board of Directors, Board of Advisors, and management. The 1MDB fund, and subsequent scandal, has broader economic implications for the country as a state-owned enterprise. The report outlines the major economic implications, and why the case should be further researched as an area of public interest. Given the scandal, borrowing funds for future economic endeavor will be difficult for the government and will impact the future of the country's economy. Borrowing funds internationally relies upon a sovereign credit rating. The incentive to maintain a high credit rating is to avoid excessive interest for borrowing. 1MDB's default affected its bond rating by agencies like Moody's and Fitch, which put the country and its economy in developmental risk. In response to this PAC report, the Deputy Prime Minister relayed to Parliament the following recommendations: (1) accepting resignations from the 1MDB Board of Directors by May 31, 2016, (2) investigation from the Royal Malaysian Police of 1MDB, and (3) transferring 1MDB's assets to the Minister of Finance Incorporated (Ramanathan, 2016). As an ongoing political scandal, these recommendations should serve as a foundation for domestic application within Malaysia. It

should also be an important consideration for adherence to measures like the Santiago Principles, and the issue of transparency and accountability.

As an SWF, 1MDB should serve as an example in tackling mismanagement and supporting systemic improvement. Recommendations following the 1MDB Scandal can be summarized in the following points. Firstly, in addition to the existing Santiago Principles, mechanisms should be in place to track the progress of SWFs. This recommendation closely relates to the issue of transparency and accountability, in the opportunity to improve and enhance procurement practices and systems. There is no official register in Malaysia that tracks SWFs, resulting in potential risk for effective monitoring. In addition to establishing infrastructure for accountability, expectations should be enforced through goals, limits, approval of Parliament, and punishment of non-compliance. Established rules should seek to curb profiteering, whilst ensuring that public officials who do not comply are not offered opportunities to regulate nor legislate performance of SWFs. Transparency is critical in the improvement and trust of government officials and existing institutions. After the scandal, Bank Negara imposed fines on 1MDB for their inability to comply with financial regulation. The amount of these fines, however, were not exposed. Authorities in Singapore and Switzerland voiced their concerns, implying the reputational risk of Malaysia's financial centers by deliberately choosing to be disingenuous (Ramanathan, 2016). An implication of this outcome lies in whether or not these fines will deter similar scandals in the future. By creating a program of reviews, starting with an official register of SWFs in Malaysia, the country will be able to work towards audits that seek compliance, uphold standards, and rebuild trust with foreign economies.

The lack of enforcement, alongside asymmetric information, serves as stark limitations to the Santiago Principles. In recognizing the limitations of the Santiago Principles, there are

several solutions to improving its effectiveness. The Santiago Principles approach SWFs as entities, overlooking the relationship between recipient countries. To curb this, improving these principles start with greater collaboration between the International Working Group of Sovereign Wealth Funds (IWG) and the Organization for Economic Cooperation and Development (OECD). The goal of this collaboration should seek to expand guiding principles to not only address SWFs as an entity, but acknowledge competing interests. A collaborative method will allow for greater balance in dealing with SWFs and their shortcomings. This collaborative group would serve in creating specific requirements and guidelines that standardize expectations. This would reduce informational imbalance, and establishing a minimum bar of transparency. Lastly, developing an audit committee is additionally recommended, given the voluntary nature of the Santiago Principles. This committee will be composed of an equal number of members from recipient countries, with one member respectively nominated from the IMF. This will serve as an equitable balance of representation, paired with expertise (Wong, 2009).

CONCLUDING REMARKS

In conclusion, the 1MDB scandal has resulted in unprecedented political outcome and long-term economic uncertainty. The historical context of Malaysian politics and economic strategy offers compelling insight for the lead-up to the 1MDB scandal. The negative reception from 1MDB resulted in an unprecedented election result that promised democracy and greater economic equality. It is important to acknowledge Pakatan Harapan's win through the context of Mahathir's political legacy and Najib's role after the scandal. Studies in transitology offer a compelling explanation for Mahathir's win despite authoritarian tendencies, and the effect that he had over Malaysian— particularly Malay— voters. The timeline of events leading up to Pakatan Harapan's success similarly demonstrate the stark entanglement of ethnicity, race, and

religion within Malaysian politics. The present political situation, however, offers a shattering blow to the hopes for democracy and the inherent weaknesses in the coalition that resulted in its demise. As an ongoing political investigation, future literature should continue to quantitatively track the political and economic implications of the 1MDB scandal. Qualitative means of conducting future studies should also involve surveys, highlighting the significance of variables like ethnicity and religion. To further understand the nature of Pakatan Harapan and its ability to sustain itself, it would be valuable for future study on this issue to comparatively research election-losses of long-term governing parties that had authoritarian tendencies. Examples may include Poland's 1989 election, India's Congress Party (1977), Mexico's Revolutionary Party (2000), and Japan's Liberal Democratic Party (1993). Literature should also continue to explore the sustainability of Sovereign Wealth Funds (SWFs), and the recommendations for ensuring accountability and transparency. Recommendations for enforcing measures like the Santiago Principles continue to be an area for international collaboration. Recommended areas for future literature should study the means of encouraging this process, with respect to SWFs impact on financial markets. Lack of transparency and accountability are often assumed as illegitimate and as characteristics of non-democratic countries. As presented by Zhang (2018), however, there lacks quantitative literature to support such correlation. Future literature on SWFs should study the relationship between democracy and transparency, in relation to legitimacy.

APPENDIX

Sovereign Wealth Funds by Region

| <i>Region</i> | <i>Countries</i> |
|----------------------|------------------|
| <i>ASIA</i> | CHINA |
| <i>ASIA</i> | UAE |
| <i>EUROPE</i> | NORWAY |
| <i>MIDDLE EAST</i> | SAUDI ARABIA |
| <i>ASIA</i> | SINGAPORE |
| <i>MIDDLE EAST</i> | KUWAIT |
| <i>MIDDLE EAST</i> | QATAR |
| <i>OCEANIA</i> | AUSTRALIA |
| <i>NORTH AMERICA</i> | UNITED STATES |
| <i>EUROPE</i> | RUSSIA |
| <i>ASIA</i> | SOUTH KOREA |
| <i>ASIA</i> | KAZAKHSTAN |
| <i>MIDDLE EAST</i> | IRAN |
| <i>MIDDLE EAST</i> | LIBYA |
| <i>ASIA</i> | BRUNEI |
| <i>EUROPE</i> | AZERBAIJAN |
| <i>ASIA</i> | MALAYSIA |
| <i>ASIA</i> | TURKEY |
| <i>EUROPE</i> | FRANCE |

OCEANIA

SOUTH AMERICA

MIDDLE EAST

ASIA

MIDDLE EAST

EUROPE

SOUTH AMERICA

CENTRAL AMERICA

SOUTH AMERICA

ASIA

SOUTH AMERICA

AFRICA

AFRICA

ASIA

ASIA

AFRICA

AFRICA

CENTRAL AMERICA

ASIA

MIDDLE EAST

AFRICA

NEW ZEALAND

CHILE

BAHRAIN

EAST TIMOR

OMAN

IRELAND

COLOMBIA

MEXICO

TRINIDAD AND TOBAGO

INDONESIA

PERU

ANGOLA

BOTSWANA

INDIA

MONGOLIA

NIGERIA

GHANA

PANAMA

VIETNAM

PALESTINE

GABON

SOUTH AMERICA

BOLIVIA

OCEANIA

KIRIBATI

AFRICA

SENEGAL

AFRICA

MAUTIRANIA

AFRICA

EQUATORIAL GUINEA

Panel Speech

My honors thesis is an exploration of the 1Malaysia Development Berhad Scandal, and the major political and economic implications it had on Malaysia. Authors of Billion Dollar Whale: The Man who Fooled Wall Street, Hollywood and the World, Tom wright and Bradley hope, contextualize this scandal as a thrilling expose on the modern Gatsby, and how he managed to swindle \$5 billion dollars with the assistance of Goldman Sachs. Known as the “heist of the century,” the book’s summary refers to Low Taek Jho, the ‘mastermind’ of the scandal, abetted by the country’s own Prime Minister at the time, Najib Razak. Together, they defrauded over \$700 million dollars—funds that were supposed to go to the country’s development fund, 1Malaysia Development Berhad. The purpose of this development fund, 1MDB, was dedicated to enhancing the country’s developmental goals, such as achieving a developed status by 2020. Efforts to achieve these developmental goals meant attracting development to Malaysia through foreign investments, by targeting investment opportunities in international finance, power plants, oil fields, and major development zones in Bandar Malaysia. This plan adopted a three-tier corporate structure made up of advisors, board of directors, and management. Najib, the Prime Minister, was also the minister of finance and chairman for the plan’s advisory board. In mapping out the timeline of what happen to 1MDB, the sovereign wealth fund began global joint ventures made up of government bonds and collateralized oil payments through deals with

PetroSaudi international, a Saudi oil and gas entity, whilst also working with other entities like Aabar Investments—a subsidiary of Abu Dhabi's sovereign wealth fund. The fund also sought to internally invest in the country by raising 5.5 billion dollars through bonds, and toward real estate, energy markets, and the Tun Razak Exchange—a 106-floor tower that surpassed the country's tallest twin-towers at 451.9 meters.

Amidst the efforts for investment and development, Abdul Wahid Omar, the minister to the prime minister's office, stated that 1MDB's 'model of low capitalization and huge borrowings' would not be sustainable. This came true in 2015 when the fund missed its first payment, resulting in increasing public pressure for transparency. The scandal began with a controversial report by Sarawak Report leaking email correspondences between Jho Low and foreign entities. On July 2016, the United States began investigating a civil forfeiture complaint resulting in a combined amount of \$2.1 billion in traceable and embezzled assets from 1MDB.

To quote the Assistant Attorney General of the DOJ's Criminal Division, the alleged complaints outline how: *“Jho Low and others, including officials in Malaysia and the United Arab Emirates, engaged in a brazen multi-year conspiracy to launder money embezzled or otherwise misappropriated from 1MDB, and he used those funds, among other things, to engage in extravagant spending sprees, acquiring one-of-kind artwork and luxury real estate, gambling freely at casinos, and propping up his lavish lifestyle,”*

The Rakyat Post reported on Jho Low's central involvement in the scandal, siphoning 1MDB dealings with PetroSaudi into his personal bank account. Riza Aziz, stepson of Najib and friend to Jho Low, allegedly diverted 1MDB funds as a movie producer to luxury properties and projects. One of these projects include funding the Oscar-nominated film, “The Wolf of Wall Street,” a film based on the successful stock broker turned criminal, Jordan Belfort. The film...

about a criminal who financially defrauded and manipulated the masses, ironically, organized and led by a criminal who defrauded and manipulated the Malaysian people.

The historical context that led Malaysia's leaders to commit one of the greatest financial scandals in history, outlines a critical review of Najib and his influence, whilst also consider the political history before him. This includes Prime Minister in charge prior to Najib, Mahathir Mohamed. In reconciling the significance of history, the political aftermath of the 1MDB scandal resulted in unprecedented outcome. The Barisan Nasional (BN) Coalition was, and had been the sole entity in power since the country's independence in 1957. UMNO, the United Malays Nasional Organization, is Malaysia's largest political party, and a member of the Barisan Nasional (BN) Coalition. Dr. Mahathir Mohamad, a significant player in Malaysian politics, previously serving as Prime Minister for UMNO-BN from 1981 to 2003, quit UMNO in the aftermath of the scandal. Mahathir's resignation from UMNO after the 1MDB scandal greatly impacted Najib, especially given their mentor-mentee relationship. Among all of the calls for Najib to resign after his involvement in the 1MDB scandal, he did not relent, but instead, incorporated strategies to defend UMNO on the state level. One of these strategies included Najib's political removal of politicians related to Mahathir.

The 2018 Malaysian General Election, also known as GE14, took place on May 9th, 2018—two years after the 1MDB scandal surfaced. After quitting UMNO, the party he previously served as Prime Minister under, Mahathir created a coalition called Pakatan Harapan (translated as “coalition of hope”) with three other opposition party leaders. The fact that the three other parties in the coalition agreed to Mahathir as the face of Pakatan Harapan spoke volumes. The three other parties—abbreviated PKR, DAP, and Amanah-- have all previously fought against Mahathir as a corrupt dictator. This is especially significant, given that these three leaders were

also previously imprisoned by Mahathir. Despite previously-held beliefs, leadership under Mahathir was viewed as the only chance to topple UMNO and BN. To the surprise of the country, Pakatan Harapan won enough seats to prove this hope true. For the first time since the country's independence, a new party was in power.

Malaysia's 14th General Election represents the hope for democracy and change in the aftermath of the 1MDB scandal, whilst also demonstrating the country's complex political undertones that largely fall on ethnic lines. The role of ethnicity in shaping Malaysian politics remain a sensitive issue in the face of electoral competition. The country follows a tradition of Malay-dominated politics, largely resulting in consociationalism—accepting supremacy from Malays and their religion of Islam. This notion has shaped the country for decades, ruled by a largely Malay party, alongside Chinese and Indian partner parties. It was not until the last decade that an alternative party was fathomable. Mahathir's win as the face of Pakatan Harapan offers insight on the research area of 'transitology' and the end of a 'transition paradigm.' Despite his past authoritarian tendencies, Mahathir's success has led researchers to coin the term: "The Mahathir effect" in encompassing the role of credible personalities in regime transition by highlighting the outcome of Malaysia's 2018 election.

In addition to the political implications of the 1MDB scandal, a major portion of this thesis delves into the economic impacts as well. Prior to officially transitioning as 1MDB in 2009, the federal entity was known as the Terengganu Investment Authority (TIA)-- a sovereign wealth fund that sought to promote the coastal state of Terengganu. By definition, sovereign wealth funds are state-owned investment vehicles for various global assets. The purpose of sovereign wealth funds are to stabilize governments, export revenue, accumulate savings for future generations, offset future lack of natural resources, and management of foreign reserves. At first

glance, sovereign wealth funds seem like excellent sources of streaming and ensuring steady cash flow for long term investments. Limitations, however, include lack of transparency and political motivation.

As a sovereign wealth fund, IMDB was established due to state budget surpluses following favorable macroeconomic fiscal and trade positions. The growingly complex and fast-paced nature of global financial markets have diversified the indication of financial stability. Not only does financial stability depend on solid asset management, but also on investment strategies, which in this case, were in the hands of Goldman Sachs. Mismanagement and lack of transparency emerges a larger issue of regulation, with an emphasis on trusted intermediaries to help nations regulate these funds.

In the last two decades, sovereign wealth funds have grown ten-fold. Growth in sovereign wealth funds have been the result of the rising price of oil, concentrated in countries like Kuwait, the United Arab Emirates, and Norway. According to the sovereign wealth fund Institute in 2015, Asia's sovereign wealth fund accounts for 39% of the world's total sovereign wealth fund assets. A major aspect of sovereign wealth fund's financed in the region is linked to Asia's accumulation of foreign exchange reserves, primarily a response to the 1997 Asian Financial Crisis. After the crisis, many countries in Asia sought to continue increasing their ownership of foreign exchange reserves in preparation for a future crisis. Many governments, therefore, have created greater yields in equity and corporate bond assets by further investing in foreign exchange reserves. In the context of sovereign wealth funds, the Asian region has received unique skepticism in corruption and losses motivated by "foreign policy objectives rather than economic considerations."

Due to data restriction, there lacks previous literature on the issue of agency in sovereign wealth funds. Governmental leaders may feel political pressures by shoring up domestic firms, passing up on “high net present value investments in other firms and creating product market distortions by favoring connected or poorly performing firms.” The relationship between political agenda and sovereign wealth funds are high, resulting in greater opportunity for nepotism and corruption.

Our panel’s focus on responsibility as the motivation for our observations, reflects the 1MDB scandal at its core. The political implications, paired with economic consequence, reflects the critical position of responsibility in governance. On a national scale, this study outlines just how important governance is in ensuring stability and development, but also how it directs the trajectory of the country. Politically, this trajectory is evident in the historic general election that took the country, and world, by surprise.

The GE14 was seen as a historical turning point for Malaysia, with UMNO-BN losing the power they have had for the last 60 years. The coalition’s win ignited a wave of democratic hope for change. However, in 2020, two years after GE14, the new government is no longer in power, and the old rule is back. In what was supposed to be the party that rallied against corruption and the old political system, this was “a shattering blow to those who saw the 2018 election as a watershed, a new beginning.” Among the many factors that led to this short-lived acclaim for change, an analyst and fellow from the Singapore Institute of International Affairs notes that the Pakatan Harpan faced a cycle that led to an inherent weakness in structure amidst ambition. A professor at the International Islamic University in Malaysia, explains that internal weaknesses with the party led to its demise. The ideological “chasm contributed to the breakdown in strategic and constructive communication,” leading to distrust in institutions and leaders.

Economically, the role of responsibility is reflected in the means of oversight on an institutional, but also international, level. For example, Goldman Sachs' mismanagement of funds, and purposeful lack of oversight, alongside the general stability and qualities that shape sovereign wealth funds. Sovereign wealth funds are not an inherently bad source of economic development, but space for improvement, persists. To address these limitations, in 2006, The Santiago Principles were adopted, outlining 24 generally accepted practices endorsed by members of the International Forum of Sovereign Wealth Funds. These principles established a critical framework for the use of sovereign wealth funds, despite being notably voluntary. Since the principles were adopted, researchers have further explored ways to address measures for governance, accountability and transparency through scoreboards and management frameworks. In general, Asian funds have performed to the standards of the Santiago Principles, with the exception of Malaysia, Vietnam, and Brunei which performed below the global average in 2015. The Federal Bank of San Francisco reported that sovereign wealth funds in Asia continue to broadly adhere to the Santiago Principles, yet do not match the means of transparency in comparison to Norway's Oil Fund. An area of future research, therefore, lies in monitoring compliance with international standards.

What we learn from 1MDB is the consequential outcomes of sovereign wealth funds when left unaccountable. This scandal should serve as an example in tackling mismanagement and supporting systemic improvement in tracking the progress of sovereign wealth funds. Literature should continue to explore the sustainability of these funds, and the recommendations for ensuring accountability and transparency. Means of enforcing measures like the Santiago Principles, in contrast to its current voluntary nature, continues to be an area for international collaboration.

Politically, their lies value in a comparative assessment of election-losses for long-term governing parties that had authoritarian tendencies. Examples may include Poland's 1989 election, India's Congress Party, Mexico's Revolutionary Party, and Japan's Liberal Democratic Party. The 1MDB scandal is an ongoing political scandal, meaning that 1MDB recovery efforts for billions of missing dollars persist. This lies as a critical point of further research based on the discovery of new information. Thank you for listening

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