

American and European Banks, Not the BRI, Are the Culprit In Malaysia's Corruption Scandal

by Hussein Askary

July 30—Finding any evidence of China's involvement in corruption scandals in developing countries—such as the case of Malaysia, with which we deal here—is as hard as finding evidence of Iraq's alleged weapons of mass destruction, which accusation led to the invasion of Iraq by the United States and Britain in 2003 and has resulted in the death of 1.5 million Iraqis so far. Nevertheless, most American and European think tanks and news media posted articles and reports in 2018 and 2019 with headlines asserting that China and the Belt and Road Initiative (BRI) are the causes of Malaysia's corruption and financial woes.

Like every other case I have investigated of allegations thrown at China for causing “debt-traps” and corruption through investing in large-scale infrastructure projects in developing countries, this case shows that all these allegations are unfounded propaganda diatribes whose only objective is to throw a monkey wrench into the BRI machinery. Fortunately, these attempts did not work in Sri Lanka, Pakistan, and Djibouti, which countries have continued to actively cooperate with China. It did not function this time either.

As opposed to the media propaganda, the official investigations have shown that American and European banks (and their friends in Saudi Arabia and the United Arab Emirates) are the key co-conspirators with former Prime Minister Najib Razak in the historical corruption case involving the embezzlement of public funds from 1Malaysia Development Berhad (1MDB), a Malaysian investment fund. Najib was found guilty on all seven counts in the High Court of Malaysia on July 28, with more trials to come on related charges. His American and other partners will be forced to pay back historically large sums to the Malaysian state, as described below.

Looking at the facts of the Chinese BRI projects blamed for the scandal, a simple fact-check shows that these projects have absolutely no connection to 1MDB.

The BRI projects were bilateral joint ventures, partially financed by China, not 1MDB. Otherwise, China has a firm policy that trade, investment, and diplomatic relations with foreign nations will not include any interference in their internal affairs.

Repeating Lies Does Not Make Them Truths

One technique that has been used in Europe and America over the past decades is to repeat lies over and over, gradually turning them into “facts” in the minds of observers. These fake “facts” take hold and become “truths” when repeated by “respected” think tanks, aca-



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Former Malaysian Prime Minister Najib Razak, found guilty of embezzlement of public funds from 1Malaysia Development Berhad, with the collusion of Goldman Sachs.

demic institutions and well-known media. The observers are unable or are not interested in checking the facts presented there, since it is considered a sin and “conspiratorial thinking” to suspect that there is a motivation behind these allegations.

A Google search of the terms China, Malaysia, and corruption produced these results in the top ten:

- [“The Belt and Road Initiative Is a Corruption Bonanza.”](#) *Foreign Policy* magazine, January 15, 2019.
- [“Corruption Flows Along China's Belt and Road.”](#) Center for Strategic and International Studies, January 18, 2019.

• [“How China’s Belt And Road Became A ‘Global Trail Of Trouble’.”](#)

Forbes magazine, January 29, 2020.

• [“A Malaysian Corruption Scandal Shows the Dark Side of China’s Belt and Road Initiative.”](#) *The Washington Post*, January 11, 2019.

• [“Below the Belt and Road: Corruption and Illicit Dealings in China’s Global Infrastructure.”](#) Foundation for Defense of Democracies, May 6, 2020.

Instead of presenting any evidence of China’s involvement in corruption in those countries, these articles present real corruption scandals, like that of 1MDB in Malaysia, and place the mention of those scandals in text near descriptions of Chinese projects in the country. But there is no connection, except that the authors allege that China contributes to that corruption by investing in the country’s infrastructure! The only instances in which Chinese companies were involved in transactions with the 1MDB were the purchase of assets owned by the latter, such as a power plant and a real estate project, when the Malaysian government and the 1MDB were faced with the repayment of loans to their creditors, Najib’s partners in crime. But the Chinese companies did not invest in the 1MDB fund.

The Chinese BRI projects in Malaysia—such as the East Coast Rail Link (ECRL), ports, manufacturing (steel, solar power, textile, electronics, and electrical products), industrial parks, real estate, construction and energy—were all either joint ventures with Malaysian companies (not with the 1MDB), or foreign direct investments (FDI). None of the aforementioned articles and reports give any evidence of China’s involvement in the 1MDB corruption.

The reason these mostly American think tanks and media sources were so frantic about connecting China and the BRI to the scandal in Malaysia was the launching of investigations into the workings of the 1MDB fund and into Najib’s personal dealings, which had been suspected since 2015. In 2018 Najib was defeated in the general election by former Prime Minister Mahathir bin Mohamad, who was one of the critics of 1MDB and Najib. Dr. Mahathir announced after the election victory that there was enough evidence to start an investigation into this matter.

The opponents of the BRI and China then started popping open champagne bottles when Mahathir decided to suspend several of the BRI projects agreed



Work has resumed on the East Coast Rail Link, a Malaysian Belt & Road Initiative project. Here a tunnel, part of the project, is under construction, December 2019.

upon between the Najib government and China. But the suspension was not related to the 1MDB scandal but rather to the confusion of the finances of the country then in deep debt, due to the corruption fueled by Western banks and the apparent need to review the ability of Malaysia to finance such large-scale projects under such circumstances.

The two largest projects postponed by Mahathir were the \$16 billion ECRL railway project aimed at enhancing development of Malaysia’s less-developed east coast, and two gas pipelines in Sabah, one of the Malay provinces on the island of Borneo. The media portrayed this development as a big blow to the Belt and Road Initiative, saying it showed once again that China is using a “debt trap” to gain control over countries. Dr. Mahathir himself took dramatic steps to demonstrate that this was a lie, with his five-day visit to China, August 17-21, 2018.

Dr. Mahathir said that this issue is not about the Chinese. “We’re here to assure the Chinese government and its people that there will be no change of policy.... We see China as a model for development,” he said at a press conference with Premier Li Keqiang. He emphasized the issue is the corruption inside the Malaysian government itself. Until that is adjudicated, Mahathir had no choice but to put the projects on hold, and to renegotiate the projects if they are to be reinstated. The joint communiqué signed by Malaysia and China at the end of Mahathir’s visit states that the two sides will speed up the implementation of the Memorandum of Understanding on Promoting Mutual Economic Development through the BRI.

The renegotiation of the projects, especially the ECRL, resulted in slimming down the scale of the project, reducing the cost from \$16 billion to \$11 billion. Malaysian local contractors were allowed to join the main contractor, China Communications Construction Company (CCCC), in building part of the [project](#), using funds extended by the Small Medium Enterprise Development Bank Malaysia. The greatest portion of the project, both in the original and modified structure, is to be financed by loans from the Export-Import Bank of China, not by 1MDB. Construction of the ECRL resumed shortly after the new agreement was reached.

Goldman Sachs Bank Pleads Guilty

By 2015, as much as \$4.5 billion had gone missing from the 1MDB, set up by Najib soon after he took office in 2009, while nearly \$700 million showed up in his personal account. The way the 1MDB fund was replenished with cash was through either international bond issuance with the assistance of Western banks, most significantly Goldman Sachs, or through investment deals with the Saudi oil company PetroSaudi International and the United Arab Emirates state investment vehicle, International Petroleum Investment Co. (IPIC). In both cases Malaysian state-owned assets, such as ports, power plants, and real estate, were used as collateral. The debt incurred through these bond issues became public debt of Malaysia, reaching more than \$10 billion in 2015.

Multiple Western banks assisted Najib and his Malaysian partners in siphoning money from 1MDB to private bank accounts in Europe and the U.S. through complicated money laundering schemes and investments. These banks took huge fees for both helping 1MDB to raise money through bond sales and helping Najib to embezzle his share. In December 2018, the Attorney General's Chambers of Malaysia filed criminal charges against subsidiaries of Goldman Sachs in connection with 1MDB bond offerings arranged and underwritten by Goldman Sachs in 2012 and 2013. The prosecutors were seeking criminal fines in excess of \$2.7 billion, misappropriated from bond sale proceeds, and the \$600 million in fees received by Goldman Sachs.

In July of this year, Goldman Sachs came to an agreement with Malaysia to end Malaysia's criminal investigation of the role of Goldman Sachs and several of its employees in the scam. Goldman Sachs will pay \$2.5 billion directly to Malaysia and perhaps up to \$1.4 billion in proceeds from assets of 1MDB. Goldman—well aware of the amount of fraud it routinely commits—had



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Dr. Mahathir bin Mohamad, Prime Minister of Malaysia: "We see China as a model for development."

\$3 billion set aside for legal fees. The U.S. FBI is continuing its own investigation, and may fine Goldman another \$2 billion, and may also send some people to jail. The reported mastermind of the operation, Jho Low, spent unknown millions in wild Las Vegas parties, while funding the film, *The Wolf of Wall Street*.

Other Western banks being investigated are Britain's Royal Bank of Scotland, two U.S. banks, JPMorgan Chase & Co. and Wells Fargo, Germany's Deutsche Bank AG, Switzerland's Credit Suisse, Luxembourg's Edmond de Rothschild Group, and the Australian fund management company Avestra Asset Management. The only investigation in China is being conducted in Hong Kong and is related to \$250 million in Credit Suisse branch deposits in Hong Kong linked to Najib Razak and 1MDB.

Conclusion

As in almost all cases this author has encountered of an allegation about a debt-trap or corruption caused by China's BRI projects, a simple fact check shows no connection between the Chinese project and problems in the host country. Usually these financial and social problems are caused by European and Wall Street banking practices, long before the Chinese companies arrived on the scene. The Malaysian corruption story is no different. This author has shown in several articles, such as "[Why China's Debt-book Diplomacy is a Hoax](#)," "[China's Debt Trap Found to be Baseless](#)" and "[Lebanon Should Join the New Paradigm of the Belt and Road](#)," that there is no basis for the allegations levelled against China and the BRI, and that almost all of these charges are made not by economists but by political analysts with political motivations.