

The Dynamics of the 1MDB Scandal and Political Change in Malaysia*

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[Abstract]

The 1MDB scandal marked a dramatic turning point in the landscape of Malaysian politics. The scandal led to the first horizontal change of government between the ruling and opposition parties in 61 years. Najib Razak became the first prime minister to be imprisoned. The tsunami caused by the 1MDB scandal is currently ongoing. The 1MDB scandal has spread the perception that corruption is a pillar of Malaysia's political culture. Under BN's long-term hegemony, crony capitalism was established as an informal system, leading to a kleptocracy in which wealth was monopolized. As Anwar Ibrahim, a symbol of reformasi, became prime minister in the 15th general election, there was great hope that reform would take place along with political and economic stability in Malaysia. The reform results, however, are insufficient due to complex reasons such as the failure to institutionally resolve the excessive concentration of power, the coexistence of symbolic figures of reform and corruption in the unity government and the need for UMNO's influence to maintain power. The tsunami

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of the 1MDB scandal is still driving political change in Malaysia and establishing itself as a key variable that determines the success or failure of Anwar and the unity government.

Keywords: 1MDB(1 Malaysia Development Berhad) scandal, Najib Razak, Corruption, Crony capitalism, Reformasi, Anwar Ibrahim

I . Introduction

The 1Malaysia Development Berhad (1MDB) sovereign wealth fund scandal, which came to light in 2015, marked a dramatic turning point in Malaysian politics. The 1MDB scandal resulted in the first horizontal regime change in Malaysia during the 2018 general election, 61 years since independence in 1957. Najib Razak, who was the prime minister at the time, was forced to step down and became the first in Malaysian history to be imprisoned. Jho Low (or Low Taek Jho), who helped Najib launder money, is currently on the run with an Interpol red notice. Investigations into the 1MDB scandal extended beyond Malaysia to six other countries, including the United States and Singapore. At the time of Najib's arrest, authorities froze over 400 bank accounts linked to 81 individuals, and the total amount involved in the corruption scandal reached an astronomical \$4.5 billion.

Although nearly 10 years have passed since the scandal caught the public's attention, the political tsunami it caused is still ongoing. Until Najib took office, the average term of office of a prime minister was 3,384 days, and the stability of Malaysia's multi-ethnic, multi-religious, and multi-lingual society was maintained. However, since Najib stepped down as prime minister on May 9, 2018, Malaysia's political landscape has remained unstable, with four successive prime ministers taking office in quick succession. Moreover, it is also uncertain when the political upheaval caused by the 1MDB scandal will stabilize.

There were high expectations for Anwar Ibrahim, who became Prime Minister following Malaysia's 15th general election in November 2022. There was hope that he, the symbol of reformasi (reform), would bring about reform along with political and economic stability in Malaysia. However, although it has been two years since he took office, the results of visible reforms to eradicate corruption are still insufficient. In response, there has been growing criticism that corruption has become an endemic in Malaysia. Furthermore, given the power structure, Najib's political influence on UMNO cannot be ignored, and Anwar's political situation, which compels him to share power with UMNO, serves as a structural limitation that hinders the unity government's efforts to eradicate corruption. In this situation, will the 1MDB scandal serve as a catalyst for reform, enabling Malaysia to break free from systemic corruption? Or will it regress, not overcoming the structural or cultural limitations of corruption? Do the Malaysian political elites that achieved horizontal regime change have the will and ability to eradicate corruption? These questions highlight the significant challenges faced by Anwar's unity government in achieving political and economic reforms, even after Malaysia's second successful transfer of power following the country's first horizontal regime change in 2018.

This study aims to examine the dynamics of corruption and political change in Malaysia, focusing on the 1MDB scandal. To achieve this, a review of relevant literature and expert interviews were conducted. Based on these findings, the study explores the significance and impact of the 1MDB scandal in relation to Malaysia's deeply rooted corruption issues. The structure and content of the 1MDB scandal are discussed in various literatures. However, this study could be meaningful in that there is relatively little research on how the 1MDB scandal was possible in the context of corruption and political change, and what long-term impact it is having on Malaysian politics.

II . The Structure and Flow of the 1MDB Scandal

2.1. Emergence of the 1MDB Sovereign Wealth Fund

The 1MDB sovereign wealth fund was set to become the biggest corruption scandal in Malaysian history. This was because Najib and Jho Low were involved in the process of converting the normally created Terengganu state bonds into federal government bonds. The 1MDB sovereign wealth fund began with the Terengganu Investment Authority(TIA), created in February 2009 by the Sultan of Terengganu, Mizan Zainal Abidin, to prepare for the drying up of oil wells. TIA was designed to issue RM5 billion in Sukuk bonds with a 30-year federal government guarantee as initial investment capital (Azia 2019).

Problem was that the bonds were issued without the consent of Terengganu Menteri Besar Incorporated, and the guarantee terms did not follow Terengganu State's requirements. Due to this, the bond issuance was suspended on May 22, 2009. It is reported that during this time, Sultan Mizan Zainal Abidin summoned the TIA CEO and pressured him to sign a resolution delaying the bond issuance. After that, the ownership of TIA was transferred from Terengganu Menteri Besar Incorporated to the Minister of Finance only four months after its establishment (Malaysiakini 24/9/2019). In July 2009, Najib established a plan to change the name of TIA to 1MDB and expand the Terengganu State Bonds into sovereign bonds. Subsequently, 1MDB was officially launched in September 2009 when the Companies Commission of Malaysia approved the name change (Jones 2020).¹ Structurally, 1MDB was fully owned by the Malaysian federal government, with Najib serving as both prime minister and Minister of Finance, effectively making him the sole authority with final approval over all 1MDB-related decisions (Case 2017).

The first major step taken after the establishment of 1MDB was to create a joint venture, 1MDB-PSI, with the Saudi oil company

¹ Najib set the goal of 1MDB as attracting foreign investment to establish international finance hubs, power plants, and special economic zones in order for Malaysia to achieve developed nation status by 2020 (Tan 2021).

Petro Saudi International (PSI). 1MDB-PSI invested \$1 billion, with 1MDB holding a 40% stake and PSI holding a 60% stake. In this process, it was revealed that Jho Low, Najib's close associate, was deeply involved in the deal (Al Jazeera 28/7/2020). Between 2009 and 2015, several subsidiaries were established to operate 1MDB's operations. Among them, SRC International Sdn Bhd (SRC) oversaw borrowing money from Kumpulan Wang Persaraan (KWAP), Malaysia's pension fund for public sector employee. In 2012, SRC was separated from 1MDB and became a wholly government-owned entity (Jones 2020). In addition, a complex network was established that made it difficult to track financial transactions by allowing money to pass through numerous joint ventures and domestic and foreign subsidiaries.

1MDB was fully funded by the federal government, but its funding came from a variety of sources. First, the main source of funding was the transfer of funds raised when TIA was established. Second, the Islamic Sukuk mid-term bonds (2009) and short-term bonds (2014). Third, funds were raised through other bond issuances. In 2012 and 2013, approximately US\$ 6.5 billion was raised from local and international bond markets, with Goldman Sachs playing a central role in arranging and underwriting the bonds. Finally, a loan of approximately RM4 billion from the Malaysian federal government to SRC under the KWAP in 2011 was also included, with the total borrowings raised by 1MDB estimated at approximately RM41.9 billion (US\$ 10 billion) by 2015 (Jones 2020).

2.2. The Development of the 1MDB Scandal

The 1MDB sovereign wealth fund was launched with deep concerns and suspicions about the transparency and efficiency of its operations. The first major allegations came just a year after its establishment, in 2010, when opposition leader Anwar sounded the alarm. He pointed out that 1MDB lacked transparency and could be operated improperly while Najib was both prime minister and finance minister. Anwar specifically pointed out that 1MDB was carrying out multi-billion-ringgit development projects with no specified office addresses or auditors, describing it as a gamble that

the federal government was allowing (Malaysiakini 18/10/2010). Tony Pua of the Chinese-dominated opposition Democratic Action Party (DAP) also criticized 1MDB's 2010 profits of RM425 million (US\$ 99.7 million) as merely a result of transferring other government assets to 1MDB (Choudhury 2015).²

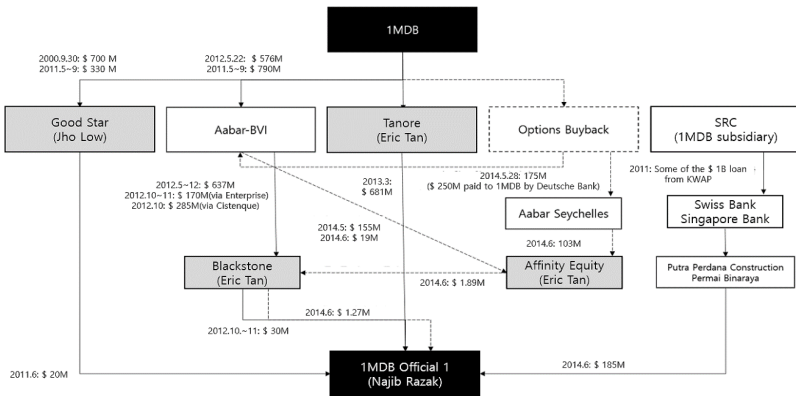
In February 2015, *the Sarawak Report*, a web portal operated by British journalist Clare Brown, began to circulate online, detailing the 1MDB scandal and the connections of its key figure, Jho Low. The report was based on a whistleblower's leak from a former employee of Petro Saudi International (PSI), containing over 227,000 emails and thousands of documents. The Sarawak Report revealed that approximately \$700 million had been transferred into Najib's personal account. As the revelations continued, the Sarawak Report's website was blocked in Malaysia in July 2017 (Jenkins 2017). However, several domestic newspapers continued to publish articles linking Najib's corruption and Jho Low's involvement. On July 2015, The Wall Street Journal further fueled the scandal by publishing a report on funds flowing into Najib's personal account from the 1MDB sovereign wealth fund, sparking significant international and domestic attention (Wright et al. 2015).

The 1MDB scandal began to attract global attention, not only due to domestic suspicions but also as a result of investigations launched by eight governments, led by the United States. The US Department of Justice (DOJ) reported that between 2009 and 2014, \$4.5 billion had been embezzled from 1MDB, with money laundering taking place through global financial systems. The DOJ identified that the illicit activities spanned multiple countries and involved the use of international financial networks. In response, the DOJ initiated actions under the "Kleptocracy Asset Recovery Initiative", aiming to seize assets linked to the scandal. This initiative is part of the US government's broader effort to recover assets stolen by corrupt officials and laundered through the US

² In 2014, the Malaysian daily *The Edge* analyzed the situation in which 1MDB had accumulated nearly RM 30 billion in debt since its establishment. It warned that 1MDB's investment and acquisition of various companies in the power sector and real estate market, resembling a shopping spree, had instead led to a massive debt pile-up, signaling a crisis of "Najibnomics" (Ahmad 2015).

financial system (Hui 2018).

The DOJ classified the 1MDB money laundering process into four phases: “Good Star”, “Aabar BVI”, “Tanore”, and “Option Repurchase”. With the Swiss government’s investigation into the ‘SRC phase’, it is understood that there was a total of five money laundering phases. In these phases, Najib and Jho Low emerged as the masterminds of the money laundering scheme. And Najib’s adopted son Riza Azia, Jho Low’s father and brother were closely involved.



<Figure 1> Outline of the Structure and Flow of the 1MDB Scandal
Source: Hui(2018); Data organized by the author.

2.2.1. The Good Star Phase

The Good Star phase is the period when 1MDB is believed to have misappropriated over \$1 billion by signing a \$2.5 billion joint venture agreement (1MDB-PSI) with PSI. The joint venture agreement was signed in September 2009 during Najib’s visit to Saudi Arabia, with the aim of utilizing energy-related assets owned by 1MDB in Argentina and Turkmenistan (Aw 2016).

According to the DOJ, 1MDB invested \$1 billion in the joint venture on September 30, 2009, in exchange for a 40% stake. Of this amount, \$300 million was transferred to the 1MDB-PSI account, but the remaining \$700 million was transferred to a Swiss account managed by Good Star, a company registered in Seychelles. Good Star was later found to be owned by Jho Low (Ramesh 2016). In June 2010, 1MDB agreed to dispose of its 40% stake and instead

received \$1.2 billion worth of bonds with estimated profits as part of the deal. Between September and October 2010, 1MDB provided an additional \$500 million loan to 1MDB-PSI, and by the following year, \$330 million flowed into Good Star (Hui 2018).

The DOJ determined that by May 2011, the total investment of 1MDB and PSI amounted to \$1.83 billion, of which \$1.03 billion was diverted by Good Star. Jho Low, the owner of Good Star, used this money to purchase Hollywood movies, acquire a software engineering company, buy luxury real estate, hotels, and private jets. Additionally, \$300 million was transferred to Eric Tan, of which \$5 million was passed on to “Malaysia Official 1”, a reference to Najib. In January 2017, a Singaporean court ruled that Eric Tan was an alias for Jho Low, and ultimately, it was concluded that Jho Low personally funneled the laundered money to Najib (Hui 2018).

2.2.2. The Aabar BVI Phase

The Aabar-BVI (Aabar-British Virgin Islands) phase is the process in which 1MDB issued two bonds a total of \$3.5 billion in 2012 to acquire Malaysian energy assets. Aabar Investments PJS, a subsidiary of International Petroleum Investments Company (IPIC), an investment corporation of the government of Abu Dhabi in the United Arab Emirates that guaranteed the bonds and provided an option in exchange for the guarantee to obtain 1MDB’s consent for a 49% stake in the energy assets. 1MDB received approximately \$1.367 billion in bond proceeds, but the proceeds were transferred to Aabar Investments PJS Limited (Aabar-BVI), a company registered in the British Virgin Islands. Despite having similar names, Aabar-BVI and Aabar Investments PJS had no connection, yet funds were transferred between them. Later, 1MDB claimed that they were victims in the matter, unable to distinguish between the two entities, and argued that the funds had been transferred to Aabar-BVI mistakenly.

Aabar-BVI provided \$172 million to Enterprise, \$637 million to Blackstone, and \$291 million to Cistenique. Subsequently, most of the funds paid to Enterprise and Cistenique were transferred to Blackstone, leading to a total of \$1.092 billion flowing into Blackstone. The issue here is that Blackstone is a company owned

by Eric Tan, who is, in fact, Jho Low. Of the funds that flowed into Blackstone, \$30 million was then provided to Najib. Furthermore, Aabar-BVI also provided approximately \$230 million to Red Granite Capital, owned by Najib's stepson, Riza Aziz. This money was used for the purchase of luxury real estate and film production.

A total of \$321.3 million from Blackstone was transferred to a construction consulting firm, Alsen Chance Holdings. Of this, approximately \$11 million was transferred to the Venetian Casino on July 10, 2012. It was later revealed that Jho Low withdrew the entire amount in cash from the Venetian Casino. Additionally, Alsen Chance Holdings transferred \$227.5 million to Good Star in December 2012, and Good Star subsequently transferred \$15.3 million to the Abu Dhabi-Kuwait Malaysia Investment Corporation (ADKMIC). This money was then transferred to Jho Low, who used it to purchase a diamond ring and earrings for his mother. During the Aabar-BVI phase, US investment bank Goldman Sachs was embroiled in a scandal when it helped 1MDB sell \$3.5 billion worth of bonds in 2012 to raise money to purchase energy assets, and in March 2013, it helped 1MDB raise an additional \$3 billion through bond sales for a new strategic economic initiative between Malaysia and Abu Dhabi (Aljazeera 28/7/2020).

2.2.3. The Tanore Phase

The Tanore phase began in 2013, when 1MDB issued \$3 billion in bonds to raise funds for a joint investment with the Abu Dhabi-Kuwait Malaysia Investment Corporation (ADKMIC). The funds were to be used for the construction of the Tun Razak Exchange (TRX) financial center in Malaysia. However, approximately \$1.26 billion of the funds were found to have been misused.

The \$646 million, \$531 million, and \$414 million that 1MDB provided to Devonshire Investment, Enterprise, and Cistenique, respectively, were transferred through Granton Property Holdings, known to be owned by Jho Low, into a bank account under the name Tanore Finance Corporation (Tanore). Both Granton and Tanore were found to be companies owned by Eric Tan.

The money that flowed into Tanore was used by Jho Low to

purchase various works of art, including Mark Rothko's *Untitled* (Yellow and Blue, \$71.55 million), Jean-Michel Basquiat's *Dustheads* (\$48,843,750), Alexander Calder's *Tic Tac Toe* (\$3,035,750), and Lucio Fontana's *Concetto spaziale, Attese* (\$7.95 million), among others. In addition to the funds directly transferred to Tanore from Granton, a total of \$518 million was first transferred to Dragon Market, then to ADKMIC, and \$93 million ultimately flowed to Jho Low. Jho Low received a total of \$774 million through a money laundering process involving his father and brothers. He used this money to purchase more art and also to gift diamonds to American actress Miranda Kerr. It was revealed that he also gifted Picasso paintings to actor Leonardo DiCaprio, among other personal expenditures.

Approximately \$681 million transferred to Tanore was moved to "Malaysia Official 1" in March 2013. Najib has claimed that this money was not personally embezzled but was a political donation given to him by Saudi Arabia's royal family, and that he returned \$620 million of it. However, according to investigations by the DOJ, the \$620 million that Najib allegedly returned was actually used to purchase personal items, such as a pink diamond pendant for his wife Rosmah, passing through Tanore, Midhurst Trading, and Blackrock.

Goldman Sachs, which managed the \$6.5 billion bond issue related to 1MDB in both the Aabar-BVI and Tanore phases, was also under investigation for potential violations of US banking laws. In the process of handling these transactions, the bank earned a \$593 million fee, part of which is alleged to have been diverted for other purposes.

2.2.4. The Option Repurchase Phase

The Option repurchase phase began in 2014 when 1MDB received two loans totaling \$1.225 billion from Deutsche Bank in the process of repurchasing the options provided by IPIC's subsidiary Aabar as it acquired energy asset stakes. Approximately \$850 million of the loaned funds were transferred to Aabar-Seychelles, a company with a similar name to Aabar, though a completely separate entity. Despite the similarity in names, the transfer of funds between these companies raised questions, as the transactions seemed suspicious

and lacked clear justifications, similar to the issues seen in the Aabar-BVI phase.

The loan funds were transferred to Jho Low, Najib and Najib's wife through three main channels via Aabar-Seychelles. First, approximately \$1.2 million was transferred to Najib through Affinity Equity and Blackrock. Next, around \$1.3 million worth of gold necklaces and bracelets were provided to Najib's wife via World Merit. Lastly, about \$64 million, laundered through multiple companies owned by Jho Low, was transferred through Dragon Market and Dragon Dynasty before ending up in Jho Low's account. The DOJ found that the money transferred from Deutsche Bank to Aabar-Seychelles was laundered in several stages, with 1MDB playing a key role in the process.

2.2.5. The SRC Phase

The SRC phase began in 2011 when SRC received a RM 4 billion loan from the Malaysian Government Employees Pension Fund (KWA). *Sarawak Report* repeatedly raised questions regarding the whereabouts of this RM 4 billion ringgit. A portion of SRC's funds passed through the Swiss financial system, with at least \$170 million (RM 680 million) being deposited into an offshore account at the Swiss private bank Julius Baer (Aw 2016)

The Malaysian court determined that from the establishment of SRC, Najib was the actual manager of the company. This conclusion was based on Articles 67 and 116 of the Articles of Association (AOA), which granted Najib the final authority over the appointment and dismissal of SRC directors as well as amendments to the AOA and Memorandum of Association (MOA). In April 2012, Najib passed a special resolution at MoF Inc, chaired by his position as Minister of Finance, to insert Articles 117 and 118 into the AOA. Article 117 allowed Najib to be appointed as an honorary advisor, while Article 118 granted him the authority to appoint a special advisor to SRC. These provisions significantly expanded Najib's control over the company (Rashid 2021).

Najib served as the advisor emeritus to the SRC from May 1, 2012, to March 4, 2019. At that time, SRC Director Nik Faisal was known to be Najib's principal agent in charge of SRC affairs under

Najib's instructions. In the end, SRC gave Najib de facto control over SRC based on absolute authority (Rashid 2021).

III. The Investigation and Trial Process of the 1MDB Scandal

The controversy surrounding 1MDB sovereign bonds began when 1MDB failed to repay \$550 million scheduled for March 2015. This triggered a flood of articles, in Malaysian media, where 1MDB bonds were reported to be priced extremely abnormally and that there were various suspicious transactions, such as overpayments related to energy assets. *Sarawak Report* exposed that Goldman Sachs had received excessively high fees for managing the bond issuance (Jones 2020).

Major global media outlets, including *The Guardian*, *The Daily Telegraph*, and *The Wall Street Journal*, also published numerous reports questioning 1MDB's financial transactions. As concerns over the 1MDB corruption scandal grew, criticism emerged not only from the opposition but also from within the ruling coalition, Barisan Nasional(BN), increasing pressure on Najib (Ramesh 2016). In this process, the bonds issued by 1MDB were downgraded to speculative, non-investment grade status. Najib had no choice but to order a national audit of 1MDB and an investigation by the parliamentary Public Accounts Committee.

However, the domestic investigation process of the 1MDB scandal in Malaysia was inevitably limited due to Najib's blatant obstruction. Despite these obstacles, the scandal was not confined to Malaysia alone, making it impossible to evade international scrutiny. In particular, what the DOJ revealed was completely different from what the Malaysian investigation authorities found. The DOJ revealed that over \$4.5 billion had been embezzled from 1MDB between 2009 and 2015. Their investigation also confirmed that \$681 million had been funneled into Najib's personal account (Aljazeera 28/7/2020). Based on the results of the investigation, the DOJ filed a lawsuit on the grounds that US was not a safe haven for corrupt individuals to hide their ill-gotten wealth or money (DOJ 2017).

The investigation into the 1MDB scandal took a dramatic turn following the 2018 general election, which saw the defeat of the ruling coalition, BN. The Pakatan Harapan (PH) government, which succeeded in changing the government for the first time in 61 years, began a full-scale investigation into 1MDB in earnest two days after winning the election, banning Najib and his wife from leaving the country. The newly appointed prime minister Mahathir Mohamad, who had previously left United Malays National Organization (UMNO) in protest over 1MDB and founded Parti Prebumi Bersatu Malaysia (Bersatu) in August 2016, expressed a strong will to deal with the 1MDB scandal by declaring an investigation into all assets related to Najib as well as a travel ban on Najib (Ellis-Petersen 2020).

At the beginning of the investigation, Malaysian authorities seized luxury items from Najib's assets, including 2,200 rings, 1,600 brooches, 1,400 necklaces, 567 handbags, 423 watches, 14 crowns, and \$30 million in cash in various currencies, amounting to a total of up to RM 1.1 billion (approximately \$270 million). At the same time, more than 400 bank accounts, including those of 81 people and 55 companies who were believed to have received money from 1MDB, were frozen due to alleged misuse of 1MDB funds (Reuters 2/7/2018). After Najib's arrest and indictment, additional charges were filed, which brought to court for 41 charges across five separate trials. In October, his wife was also indicted on money laundering (17 counts) and tax evasion (Ellis-Petersen 2020).

Najib's adopted son, Aziz, was also charged with money laundering involving \$245 million related to 1MDB funds on July 1, 2019. Meanwhile, Arul Kanda, the former CEO of 1MDB, was indicted in December 2018 on charges of tampering with audit report on 1MDB in 2016 to hide evidence of corruption. During the same period, the Chairman and Vice-Chairman of Goldman Sachs Southeast Asia were charged with embezzling \$2.7 billion (RM 11.34 billion) and bribing public officials. Additionally, 17 current and former Goldman Sachs executives were charged with fraud and embezzlement related to billions of dollars in bond proceeds (Jones 2020).

Meanwhile, Jho Low, who is accused of masterminding various financial transactions and embezzling substantial amounts of money in the 1MDB scandal, was nowhere to be found after Najib was charged. After the collapse of Najib's government, Jho Low reportedly approached Mahathir 's government, attempting to negotiate regarding his charges. He claimed that he had no authority to make any decisions related to 1MDB and that all decisions were made solely by then-prime minister (Jolley 2020). However, as of 2024, despite efforts by Malaysia and other involved nations, Jho Low remains elusive. His whereabouts are still unknown, and the investigation into the 1MDB scandal is facing significant challenges. Jho Low remains a fugitive wanted in the US, Singapore, and Malaysia, with his prolonged escape made possible by corrupt high-ranking officials in these nations (Jolley 2020).³

In February 2020, the 1MDB scandal investigation was disrupted when Mahathir staged a political coup while the investigation into 1MDB was in full swing. Muhyiddin Yasin, who was one of the pillars of PH, staged a political coup in collusion with some factions of the People's Justice Party (Parti Keadilan Rakyat, PKR) led by Anwar Ibrahim and UMNO. In this process, Muhyiddin quickly established a new political coalition called Perikatan Nasional (PN), which formed a ruling coalition with the UMNO-led BN. This meant that UMNO, where Najib's influence still remains, has come to serve as the lever of the ruling coalition. In Particular, Ahmad Zahid, the UMNO president, was under investigation for a series of corruption charges following the 2018 general election, which meant that Muhyiddin's political position could be bound to be limited by UMNO's stronghold. Thus, it was widely expected that the 1MDB investigation and trial would be affected by this political situation (Ratcliffs 2020). However, contrary to the public concerns, within six months of Muhyiddin becoming the prime minister, Malaysia's High Court sentenced Najib to 72

³ Meanwhile, former PKR deputy president Tian Chua pointed out that if Jho Low were to be arrested, Najib could be repositioned as a victim, with all charges being shifted onto Jho Low. Therefore, Jho Low's continued evasion could actually help ensure the proper execution of Najib's sentence (Interview with Tian Chua, July 23, 2024).

years in prison and a fine of RM 210 million for seven charges, including abuse of power, illegal political funding, and embezzlement of 1MDB funds.⁴

Meanwhile, following the 15th General Election in November 2022, Anwar's PH failed to secure a parliamentary majority, and ultimately formed a unity government with UMNO and BN. This shift brought about a new political phase surrounding 1MDB and Najib. As UMNO took a central role in maintaining the unity government, concerns naturally arose regarding Anwar's commitment and ability to fight corruption, particularly in relation to Najib and the 1MDB scandal. A series of events following the formation of the unity government supported these concerns. First, in March 2023, the Kuala Lumpur High Court found Najib not guilty of abuse of power related to the rigging of the 1MDB audit, one of the charges against him. The former CEO of 1MDB, who was also indicted in this case, was also found not guilty (Anand 2023). In addition, one of the key issues that showed the limitations of the Anwar government was UMNO's strong demand for a pardon for Najib.

Eventually, after a series of political processes, in January 2024, Najib received a partial royal pardon, reducing his 12-year sentence from the 1MDB scandal by half. As a result, Najib could potentially be released as early as August 2028, and his fine was also significantly reduced. Of course, this pardon does not cover all of Najib's charges, and several other cases related to Najib's 1MDB scandal, including abuse of power and money laundering, are ongoing.

IV. Political Implications of the 1MDB Scandal

4.1. Structural Causes of the 1MDB Scandal

There are diverse causes of corruption, but many studies have

⁴ According to Malaysian legal procedures, his actual prison term was reduced to 12 years since the sentences for the seven charges would be served concurrently. See further in Rashid, Hidir Reduan Abdul (28/7/2002).

traditionally focused on individual misconduct. Corruption exists in any country or society regardless of time or place because human nature, such as individual selfish desires, is a common attribute that causes corruption. However, recent research increasingly examined corruption from a structural perspective rather than attributing it solely to individual behavior. Given that corruption affects political, economic, and social spheres, interdisciplinary approaches have emerged to analyze its causes. This is because large-scale corruption centered on the government and politicians, rather than small-scale corruption at the individual level, is systematic and institutionalized as an informal system, so it is limited to approach it only as an individual deviation.

Many analyses also attribute the 1MDB scandal to Najib's personal greed.⁵ However, such analyses have limitations in that they fail to properly identify the causes of persistent and pervasive corruption in Malaysia and overlook institutional efforts to diagnose and prescribe prevention. In particular, considering the scale of the 1MDB scandal and its political and economic repercussions, it is reasonable to examine the causes of corruption from an institutional perspective rather than focusing solely on individual factors.

When analyzing the causes of corruption in Malaysia from an institutional perspective, the most important factors pointed out are the continuation of the electoral authoritarian system and the long-term hegemonic domination of BN (Ufen 2015). For more than half a century, a single hegemonic ruling coalition has been deeply involved in party business, which has led to crony capitalism becoming an informal system, and which has ultimately led to kleptocracy in which those in power monopolize enormous wealth. According to Muhamad (2020), corruption is endemic in Malaysia due to a combination of factors, such as a lack of political will and capability, failure to ensure transparency in public procurement

⁵ Liew Chin Tong noted that the Ministry of Finance was undergoing a transition from being managed based on the capabilities and influence of individuals like Razaleigh Hamzah and Daim Zainuddin to becoming a professional bureaucratic organization. However, he assessed that this transformation was disrupted when Najib took power, making the 1MDB scandal heavily influenced by Najib as an individual (Interview with Liew Chin Tong, July 16, 2024).

systems, and weak civil society and public support for reform, in a process of deepening collusion between politics and business. In a similar vein, Professor Tajuddin Rasdi, a progressive scholar who advocates for the reform of Malaysian Islam, points out that “corruption in Malaysia has come to be regarded as a subordinate concept of Islam.” He argues that corruption is perceived as a culture among Malay Muslims, and that proper reform initiatives to eradicate corruption are not working due to cultural and structural constraints.⁶

The 1MDB scandal can be seen as a failure of multiple institutional systems, particularly in terms of internal governance and controls. First, the key reasons for the scandal were the lack of effective governance and oversight concerning the raising and spending of funds by 1MDB. According to the Auditor General's (AGM) 2016 report, 1MDB violated various laws, including the Malaysian Companies Act, corporate governance codes, and regulations concerning corporate governance. The board was repeatedly provided with false and inaccurate information, and some major financial and investment decisions were made without the board's review and approval. With Najib controlling the board both nominally and practically, there was no system to control it, so no governance could work to identify and prevent embezzlement of funds (Jones 2020).

The overall financial governance problems in Malaysia also contributed to the 1MDB scandal. While Malaysia has laws and regulations on money laundering, noncompliance with these rules or anti-money laundering laws was not properly controlled. In this context, a business culture that prioritizes informal deal-making rather than proper system operations based on formal systems, inappropriate collusion practices between the government and the private elite, and a low awareness of money laundering have become prevalent in Malaysian politics and business circles. In the case of 1MDB, even the global financial firm Goldman Sachs was found to have received bribes from 1MDB and Malaysian government officials in the process of arranging bond issuance for

⁶ Interview with Tajuddin Rasdi (July 21, 2024).

fund raising in 2012 and 2013. In the process, Goldman Sachs additionally bribed 1MDB employees who managed accounts to facilitate embezzlement, as well as bribed key figures at other banks to keep them quiet, revealing the extreme vulnerabilities in financial governance (Jones 2020).

Second, the elite cartel-type political system of the Malaysian ruling coalition has acted as a structural limitation that allows corruption to run rampant. According to Hellmann (2017), in a “concentrated political market”, elite cartel-type corruption is dominant, while in a “fragmented political market”, authoritarian and nepotistic corruption are more prevalent, as empirically demonstrated. Malaysia had a concentrated political market before the introduction of the common voting rights. Malaysia is considered to have a high concentration of coercive resources because the British colonial rule effectively controlled the military and local political elites. As the power of indigenous landlords weakened during colonial rule, farmers became free from the control of landlords with sufficient land to cultivation. This change increased the opportunities for political elites to mobilize the public. Due to these characteristics, Hellmann classified Malaysia’s corruption as predominantly elite cartel-type corruption.

The 1MDB scandal is a typical example of elite cartel-type corruption that arose due to the strengthening of the nexus between politics and business within a concentrated political market. As the 1MDB scandal began to surface, suspicions grew that prime minister Najib, who also served as the Minister of Finance and Chairman of the 1MDB Advisory Board, had personally benefited from the embezzlement. However, given Malaysia’s political structure, it was virtually impossible to challenge the silence of most of the UMNO leadership on the issue. Since Mahathir came to power, power has been concentrated in the prime minister, and UMNO’s hegemonic position in the ruling coalition BN has been solidified. Accordingly, there were structural limitations in expecting the ruling party’s self-correcting efforts and will to root out corruption regarding Najib’s corruption issues ahead of the 2018 general election.

Finally, the institutionalization of corruption has been

strengthened by crony capitalism, in which the ruling coalition monopolizes election and patronage mechanisms. Kunicova (2005), who revealed the causes of corruption and political dynamics, applied the principal-agent theory in her study, indicating that voters, who are the principals, prefer politicians, who are honest agents who will guarantee their welfare and well-being. However, since agents are only interested in personal wealth and reelection, a mismatch of interests occurs, which is the cause of corruption. In a situation of information asymmetry, politicians (agents) rationally calculate the pros and cons of risks and benefits through rational choice and choose corruption. At this time, institutional design such as decentralization of government power and freedom of the press that allows the principal to monitor and punish the agent is important, and if this is weak, the agent's incentive to corrupt increases. And if corrupt activities continue among the same actors, mutual trust increases and the incentive to betray decreases. In a society where corruption is widespread, corruption is further expanded and reproduced because the risk of being punished or imprisoned for corruption is lowered. Through this process, corruption gradually becomes institutionalized, and establishes an informal system that threatens formal institutions.

The BN ruling coalition, to which Najib belongs, had never lost power since Malaysia's independence in 1957, and this allowed them to sustain crony capitalism. In Malaysia, political parties are allowed to own companies, and there are no limits on the amount of money that companies and individuals can donate to political parties and candidates, nor any requirement to report the use of donations, so the ruling party can use political funds very advantageously, unlike other opposition parties. Since the 1970s, UMNO began actively engaging in business activities aimed at developing Malay entrepreneurs, and by the 1980s, crony capitalism led by UMNO had deepened. Since then, money politics in Malaysia has become not only unofficial and secret, but also openly prevalent around the ruling coalition (Ufen 2015). The “revolving door” appointments that characterized Malaysian politics blurred the lines between the private and public sectors, making patronage politics embedded political culture.

In most cases of corruption in Malaysia, the moral decay of individuals and those around them is usually pointed out as the main factor. However, the 1MDB scandal differs from previous cases in that structural and cultural factors played a significant role. Interviews with various experts on the 1MDB scandal suggest that, beyond Najib's personal greed, Malaysia's political landscape significantly contributed to the conditions that enabled the scandal.

In Malaysia, the periodic occurrence of mega corruption scandals involving top politicians of the ruling coalition, especially UMNO can be attributed to a governance structure characterized not just by cronyism, but by a fusion of politics and business that has become entrenched over time. The 1MDB scandal is a product of this political and economic legacy of patronage politics, money politics, political-business collusion, and the alignment of politics with business interests.

4.2. The 1MDB Scandal and the Dynamics of Political Change

Najib, who lost the 14th general election in 2018, faced a long judicial process after being charged with corruption, embezzlement, and abuse of power related to 1MDB scandal. Since then, the legal and political debates surrounding the 1MDB scandal has been an important factor in Malaysia's political change to this day. However, in fact, the political debate surrounding the 1MDB scandal provided a major turning point in political change even before the 2018 general election, regardless of the ruling or opposition party. Since July 2015, as the 1MDB allegations developed into an embezzlement scandal, Najib took aggressive actions, such as abruptly dismissing the then attorney-general and replacing him with a figure loyal to him. However, tensions within UMNO regarding the investigation into the 1MDB scandal escalated. At that time, deputy prime minister Muhyiddin and several UMNO members of parliament pressured Najib for a public explanation. In response, Najib took firm actions, including the dismissal of Muhyiddin as deputy prime minister and the expulsion of Mukhriz Mahathir, the governor of Kedah and the son of former prime minister Mahathir, from UMNO. Additionally, he exerted influence over the Malaysian Anti-Corruption Commission (MACC) to alter investigation results or

pressure the commission to abandon the investigation. According to the 2016 Auditor-General's (AGM) report, Najib's persistent obstruction of the investigation was evident, including blocking access to computers and servers related to 1MDB (Jones 2020).

Not only government officials but also control over the media was strengthened. Five executives from the *Edge Media Group* were arrested on charges of incitement for reporting on the 1MDB scandal. In July 2015, a publishing ban was imposed on *Edge Weekly*, and new laws were introduced under the pretext of targeting terrorists, allowing suspects to be detained indefinitely. Additionally, *Sarawak Report* website, which was the first to expose the 1MDB scandal, was shut down by the Najib government, and a series of mysterious hacking attempts occurred (Ramesh 2016).

The purges within UMNO that were critical of the 1MDB scandal, along with the harsh suppression of uncooperative government officials and media, ultimately led to a split within UMNO. Former prime minister Mahathir led the movement to oust Najib, and together with the dismissed deputy prime minister Muhyiddin and other UMNO figures critical of Najib, founded a new Malay opposition party, Bersatu, in August 2016. Mahathir, in alliance with the DAP, the PKR led by Anwar, and Parti Amanah Negara(Amanah), spearheaded the "Save Malaysia Campaign" to increase pressure on Najib and UMNO. This series of anti-Najib movements led to the launch of a new opposition alliance, PH, in September 2016, with Mahathir and Muhyiddin's Bersatu joining forces with the DAP, PKR and Amanah, marking a dramatic turning point in Malaysian politics.

PH emerged as a major alternative to BN, with the alliance consisting of the DAP, which received strong support from the Chinese community, PKR, a multi-ethnic party led by Anwar, and Bersatu and Amanah, Malay-based parties that had split from UMNO and Parti Islam Se-Malaysia (PAS). Notably, after nearly 20 years of political differences, Mahathir and Anwar reunited politically against Najib, and in the 2018 general election, PH became the driving force behind Malaysia's first horizontal regime change in 61 years since independence. Ultimately, the 1MDB

scandal became the spark that triggered this political upheaval and the collapse of UMNO and BN's dominance.

However, the political upheaval triggered by the 1MDB scandal did not end with the ouster of Najib in the 2018 general election and the rise to power of PH, which was linked to Mahathir and Anwar. Ironically, the fall of Najib and UMNO further amplified the volatility of Malaysian politics after the general election. The "contradictory political coexistence" between Mahathir and Anwar for the common goal of ousting Najib failed to overcome the problem of trust between the two parties after the general election victory, and PH lost power after a political coup after only one year and eight months in power. The political coup in February 2020 led to the resurgence of UMNO, in which Najib still holds the largest stake, as a kingmaker, and the subsequent reorganization of the political landscape through the division and unification of the ruling and opposition parties. In particular, Muhyiddin's legal action against Najib showed a speed and intensity that exceeded political expectations, considering his cooperative relationship with UMNO. This ironically reflected the unstable political situation Muhyiddin faced after the coup. At the time, Muhyiddin lacked a strong legitimacy base as he had come to power through the coup, and in forming a ruling coalition with the corrupt UMNO. So, he was inevitably faced with escalating conflicts over nomination shares for the next general election, given the overlapping Malay support base between UMNO and his own party. Muhyiddin took a decisive legal action against Najib as a survival tactic, aiming to differentiate himself from the corrupt UMNO and BN, and thereby securing support from the Malay electorate (Kim et al. 2021: 46-50). However, after the judicial ruling on Najib, the collaboration between PN and UMNO broke down uncontrollably. Ultimately in 2021, UMNO members of parliament who followed former prime minister Najib and UMNO president Ahmad Zahid officially withdrew their support for Muhyiddin and the PN government. As a result, Muhyiddin was forced to resign as prime minister in August 2021.

After Muhyiddin's resignation, Ismail Sabri, the deputy prime minister of UMNO, assumed office as the new prime minister. However, Ismail Sabri was also unable to escape the inherent

limitations of legitimacy stemming from the previous Muhyiddin government. While the legitimacy of Muhyiddin's government had mainly been questioned by the opposition and civil society, Ismail Sabri's legitimacy crisis arose primarily from internal pressure and conflicts within the ruling coalition, particularly from UMNO, where he served as deputy prime minister, and from Bersatu, led by Muhyiddin. This internal friction ultimately led to his resignation from the position of prime minister after just 15 months in office, highlighting the severity of the legitimacy crisis he faced.

In the 15th general election held in November 2022, PH secured the most seats in the Dewan Rakyat (House of Representatives), leading to Anwar's appointment as prime minister. This marked another turning point in the political landscape surrounding the 1MDB scandal and Najib. Regarding the high court's ruling on Najib in 2022, Anwar expressed that it was "a decision made by the people, which was professional and courageous in accordance with the facts and the law, aimed at holding dictators and those in power accountable" (Aljazeera 2022). The victory of Anwar and PH in the general election, having been symbols of *reformasi* for nearly 20 years, was expected to have a positive outlook on the eradication of corruption and political reform.

Immediately after taking office as prime minister, Anwar identified corruption as a critical issue undermining the national economy and moral order, and launched a series of institutional reforms to address the corruption associated with the 1MDB scandal. In particular, he emphasized the importance of transparent public procurement systems and announced that government contracts would no longer be awarded through direct negotiations. This is considered an important measure to reduce corruption in the process of awarding government contracts. Furthermore, he took action to empower key institutions including police, Malaysian Anti-Corruption Commission (MACC), and the Auditor-General, granting them stronger authority to eradicate corruption among public officials (Malay Mail 31/01/2023). Progress has also been made in the investigation into the 1MDB scandal, and international cooperation has been strengthened to track down Jho Low, who led

the illicit financial transactions.

However, in a situation where PH, which failed to secure a majority in the Dewan Rakyat in the general election, had to form and maintain a unity government by cooperating with UMNO-led BN, doubts were bound to be raised about Anwar and PH's ability to eradicate corruption and reform. A series of events since the formation of the unity government have supported these concerns. In particular, the Agong's decision to partially pardon Najib was enough to raise controversy and suspicion that Anwar was the product of a political compromise to maintain the unity government with UMNO, where Najib still wields great influence. In addition, the High Court dropped the charges against Ahmad Zahid, the UMNO president and deputy prime minister of the unity government, who had been under investigation for 47 corruption charges since the 2018 general election, in September 2023. As suspicions were raised that this was a kind of pardon, doubts about Anwar and PH's will and capacity to root out corruption and reform continued to grow.

V. Conclusion

The 1MDB scandal involving former prime minister Najib has created a ripple effect that has rose to become a colossal tsunami. It has been almost 10 years since the 1MDB scandal, yet the aftermath continues to reverberate, and the effects remain ongoing. As Anwar's unity government moves through its mid-term, the question remains of whether it will deliver concrete results in fighting corruption and whether Malaysia's democracy will mature further. Will the unity government's reforms fail to overcome their inherent limitations and end up unfinished? Anwar and PH may take longer to show tangible results in combating corruption. However, there remains hope that their rule will ultimately have a positive impact on Malaysia's political development. Since taking office, Anwar has consistently shown his commitment to anti-corruption efforts, describing corruption as a "cancer" that harms the national economy, erodes morality, and diminishes public trust (Radhi 2024). In May 2024, he unveiled the 'National

Anti-Corruption Strategy 2024-2028 (NACS)', presenting a strong and concrete policy agenda for tackling corruption.

However, there are clear limitations in Anwar's commitment to anti-corruption efforts being translated into substantial, visible change. Figures who can be seen as symbols of both reform and corruption are continuing their "precarious coexistence" under the umbrella of the unity government. In this context, the assessment that it will be realistically difficult for Anwar's government to sever the links of corruption during this term is persuasive. If UMNO continues to play the role of a kingmaker, or if it seizes the opportunity to return to power in the next general election, Malaysian politics may be pushed into a situation where it regresses.

Economically, the 1MDB scandal continues to significantly affect the Malaysian people. As of 2023, RM 43.8 billion had been paid off as part of debt servicing for 1MDB, with RM 9.7 billion still outstanding (Ministry of Finance 2023).⁷ All of these costs must ultimately be borne by the taxpayers. However, institutional reforms to prevent kleptocracy have been slow. The problem is that the structure of various funds related to political elites in Malaysia is no different from 1MDB. In the case of the recently increasing PFI (Private Finance Initiative), private funds are being used to inject private funds into large-scale projects through public-private partnerships. The issue is that through these complex processes, government funds raised through taxes are simply being shifted from the public sector to private companies (Murugiah et al. 2023). This suggests that many hidden cases likely exist, intensifying concerns that similar issues will continue to arise. Unless there are institutional reforms, the continued use of taxes to fill the pockets of corrupt politicians is inevitable.

Despite the chaotic political turmoil triggered by the 1MDB scandal, there are some hopeful aspects within Malaysian politics. As the 2022 general elections are held, there are growing expectations that the expansion of young voters' voting rights and

⁷ According to an EMIR Research report published in 2023, the economic losses caused by corruption in Malaysia from 1996 to 2022 amounted to approximately RM 2.3 trillion (Hussin 2017).

their increased political participation will have a positive effect on Malaysian political reform. The fact that PH won the last general election and Anwar was able to take office as prime minister reflects this desire for change. Moreover, Furthermore, under Anwar's unity government, various measures have been implemented to improve transparency and accountability in government and businesses, and meaningful institutional mechanisms for eradicating corruption are also being supplemented.

Ooi Kok Hin of the Malaysian civil society group BERSIH evaluated that the handling of the 1MDB scandal, in which the prime minister was actually arrested and prosecuted for wrongdoings while in office, was significant in that it sounded an alarm in the political world where corruption and money politics were considered a political culture. Ooi emphasized that although there is still a lot of institutional improvement needed, unlike in the past, citizens' access to the government and information is gradually expanding, so they will continue to demand change together with citizens.⁸ The expansion of civic movements will be a major factor in expecting changes in Malaysian politics.

Of course, there are many factors that hinder the task of eradicating corruption and political reform, such as the Prime Minister concurrently serving as the Minister of Finance, the uneasy coexistence of PH and BN with different political tendencies, and the corrupt political forces within UMNO still playing a key role as kingmakers. The whereabouts of the money received from China in relation to 1MDB have not yet been clearly revealed. If this is uncovered, it could potentially escalate into a new phase of corruption, beyond the five phases of corruption already identified. There are also difficulties in securing the new recruits of Jho Low. While the tsunami triggered by the 1MDB scandal has somewhat subsided, its after effects still possess explosive potential. Even though the 1MDB scandal first came to light in 2015, nearly 10 years later, it continues to drive political changes in Malaysia and remains a key factor that determines the success or failure of Anwar and the unity government.

⁸ Interview with Ooi Kok Hin (July 19, 2024).

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