

1MDB: the reckoning

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The 1Malaysia Development (1MDB) scandal that swept the opposition into power is turning into a reckoning for \$22 billion worth of China-backed infrastructure projects.

The surprise election victory in May (2018) of the opposition party in Malaysia, led by former prime minister Mahathir Mohamad, was provoked by voters' anger at alleged corruption at 1MDB, the state infrastructure investment fund.

A couple of days after taking office, Mahathir ordered the attorney general's report on [1MDB to be declassified](#) – and the investigation is widening. In early July, Mahathir's predecessor Najib Razak was charged with corruption-related offences involving 1MDB.

The fund may have racked up debt of as much as \$12 billion, according to Tony Pua, a member of parliament of the ruling coalition and one of the loudest critics of 1MDB, who has been appointed special officer to the finance minister to investigate the fund. For now, the exact state of 1MDB's finances remains a mystery.

Finance minister Lim Guan Eng [appointed PwC to audit](#) the fund on 24 May.

While the new government has pledged to pay off 1MDB's debts, it has also shelved all infrastructure projects pending reviews of their cost structure. Finance Minister Lim Guan Eng blamed the cost of paying off 1MDB's liabilities for the cancellations.

"We have to pay M\$50 billion [((\$12 billion)] in debt. If not for the 1MDB scandal, the LRT3 and other projects can proceed without glitches. We are now paying the price of the scandal," Eng said at a conference in Kuala Lumpur.

Investigations into the terms of the three contracts with Chinese state-owned firms have reportedly revealed extensive links to 1MDB, mostly in the form of bribes to pay off the fund's debt.

The government in early July instructed China Communication Construction Company (CCCC) to halt work on the proposed 688km East Coast Rail Link (ECRL) and China Petroleum Pipeline Bureau to suspend work on two pipelines worth \$2.5 billion.

The ECRL has been [marred in controversy](#) since it was awarded to CCCC in November 2017, amidst reports that the cost had been inflated to pay off 1MDB's debts. Eng said in early July (2018) that the real cost of ECRL is M\$81 billion rather than the previously stated M\$55 billion.

The pipelines have drawn fresh attention because of new revelations that nearly 90% of the cost was paid to China Petroleum Pipeline Bureau even though just over 10% of the work had been completed.

Some of that money may have been used to pay off 1MDB's debts, according to Pua. "The entire pipelines project smelt like a scam," he said.

So far, the Chinese state-owned companies nor Beijing have commented on the very public unravelling of 1MDB.

Mahathir is scheduled to travel to China in mid-August and has vowed to renegotiate the terms of the three projects.

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