

Najib's jailing threatens Malaysia's fragile coalition

The harsh verdict has surprised observers

On Tuesday, **Malaysia's** former Prime Minister Najib Razak was sentenced to 12 years in jail for his role in the 1MDB corruption scandal. Goldman Sachs agreed to a US\$3.9 billion settlement. The verdict was historic – it is the first time a former Malaysian prime minister has been found guilty of corruption. The political implications of the verdict appear most significant. Prime Minister **Muhyiddin Yassin** relies on Najib's United Malay National Organization (UMNO) party for its majority. Muhyiddin has also pledged to go after businessman and key Najib ally and UMNO funder – Low Taek Jho better known as Jho Low. On a side note, Jho Low is a fantasist conman and anti-hero of the best seller "Billion Dollar Whale". Any trial is likely to cause embarrassment to Hollywood stars Robert DeNiro and Leonardo DiCaprio, model Miranda Kerr, the Abu Dhabi royal family, its sovereign wealth fund Mubadala, Goldman Sachs and Deutsche Bank.

Although UMNO will likely resent the further prosecution of Najib's allies, it may not be willing to rock the boat too much as its options for securing an alternative path to government are unclear. Mahathir Mohammed – the man Muhyiddin controversially replaced in March – has not been able to bring forward a motion of no-confidence against the current government because of COVID-19 parliamentary restrictions. There is some [speculation](#) that Mahathir may even try to form a new party to help topple Muhyiddin's government. Whatever the outcome, expect more political uncertainty, manoeuvring and horse-trading before a snap poll in 2021.

Contest for Indo-Pacific heats up

An assertive China is being met head on

China has taken advantage of the pandemic-induced dislocation to prosecute territorial and maritime disputes. **Japan, India, Australia** and the **US** – the four members of "the Quad" – are leading a group of nations seeking to check Beijing's assertive behaviour. Last week, the US engaged in maritime exercises with Australia and Japan in the Philippines Sea, one day before commencing bilateral exercises with the Indian Navy. The closely scheduled drills were clearly designed to signal to Beijing the Quad's growing strategic alignment. India has historically been reluctant to allow Australia to participate in the annual US-India-Japan trilateral Malabar exercises, partly to appease China. The recent deaths of 20 Indian soldiers along disputed sections of the Sino-Indian border have altered New Delhi's calculations. New Delhi will [likely invite](#) Australia to participate in this year's exercises. The [outcomes](#) of this week's talks between US Secretaries of State and Defense and their Australian counterparts further underscores the centrality of China to strategic considerations.

Washington is also looking across the Atlantic to help counter China. The **UK** is [reportedly](#) considering basing one of its two aircraft carriers in the Indo-Pacific region. The US is trying to get the **EU** to join an anti-China coalition too. **France's**

[de-facto](#) ban on Huawei suggests that this approach may be having some success. Many Western and Indo-Pacific countries have issues with Beijing. The success of Washington's efforts will likely hinge on its ability to translate shared senses of concern and grievance into a coherent and mutually agreed strategy.

Democrat's review Middle East policy

Democrats pledge to "turn the page" in the region

The [draft](#) of the **US** Democratic Party Platform signals a potential shift in the US's engagement in the Middle East. The Democrats pledge to end the "race to war" with **Iran**, signalling a desire to return to the JCPOA – or 'Iran deal'. It may be easier said than done, as hardliners increasingly dominate Iran's politics. The previous champion of the deal, President **Rouhani**, is both bruised and reticent. The platform stresses that the US will not "abandon" the region – a "small" and "focused" presence in **Iraq** and **Syria** will endure. A US security shield will remain, albeit in a modest form. The Democrats plan to "reset relations" with Gulf partners and have "no interest" in "indulging authoritarian impulses." A shift in the US-**Saudi** relationship seems inevitable, particularly the close relationship with Crown Prince **Mohammed bin Salman**. The Democrats also say that they will end support for Riyadh's war in **Yemen**. On **Palestine**, the Democrats oppose the annexation of the West Bank and have promised to reverse President **Trump**'s aid cuts to the Palestinians. Overall, the platform seeks to redress the unpredictability of the Trump administration's engagement with the region.

Nile Dam talks reopen

Wet season milestone reached despite no solution

Years of trilateral negotiations on the operation of the Grand Ethiopian Renaissance Dam (GERD) have failed to deliver a solution. Ethiopian Prime Minister **Abiy Ahmed** recently announced **Ethiopia**, **Egypt** and **Sudan** had reached an "understanding... pav[ing] the way for a breakthrough." Yet, negotiations stalled again after Ethiopia stated it had partially filled the dam without agreement from Egypt or Sudan. Egypt is concerned by the precedent set by Ethiopia's unilateral interference with the flow of the river. A new round of negotiations resumed on Monday. The countries are negotiating a method of conflict resolution and a compensation mechanism for water that is removed. Egypt is committed to finalising a binding legal framework with an arbitration body that oversees disputes. Ethiopia is seeking a non-binding agreement and a body that facilitates discussion but holds no authority. Both leaders are under pressure to deliver. Egypt relies on the Nile for 95% of its water needs and the dam may alter Egypt's share of the Nile river flows by 25%. For Ethiopia, the GERD will deliver electricity to 65 million citizens and enable the export of power. The dam is also a source of pride in fractured polity. President **Ei-Sisi** has now ruled out military action, an improvement from his vague military threats in June. Egypt appears more willing to strike a deal and progress in the negotiations looks more likely.

China shows signs of financial instability

Troubled firms suggest that China's financial system is in a potentially fragile state

In mid-July, **Chinese** regulators took control of nine distressed firms controlled by Xiao Jianhua – a billionaire who has not been seen in public since his arrest in **Hong Kong** three years ago. In total, \$US171.5 billion worth of assets were seized,

including Huaxia Life Insurance, China's fourth-largest insurer. At the end of 2019, Huaxia Life had an assets-to-equity ratio of 26:1. Before its seizure, depressed economic conditions saw Huaxia Life's book value shrink 23% in a quarter. Huaxia Life is not a total outlier. In the insurance industry, companies representing 15% of the market – with approximately \$US342 billion in total assets – may no longer be able to maintain minimum regulatory capital requirements.

Credit risk is not unique to the insurance industry. Beijing has leaned on banks to take up much of the stimulus burden. New lending jumped 22% in June. A significant portion of these loans has been directed towards potentially inefficient State-Owned Enterprises increasing the risk of defaults. It may be too expensive to salvage and/or recapitalize all the distressed companies, although letting companies fail would not be a popular option either. Estimates [suggest](#) that unemployment rates may be as high as 20%. Policymakers in Beijing will need to tread carefully to maintain both social and financial stability.