

THE OPTIMAL BUNDLE

THE PENN STATE ECONOMICS ASSOCIATION PRESENTS:
THE OPTIMAL BUNDLE

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Mission Accomplished, Russia Pulls Out of Syria

Six months after beginning airstrikes against rebels in Syria, Vladimir Putin surprised the international community by announcing a partial withdrawal of Russian troops. Speaking on March 14, the same day talks between the Syrian government and the opposition opened in Geneva, Putin declared, "The task set for the Ministry of Defence and the military forces has been accomplished." On the surface, both parties strengthened the regime of the "legitimate" sovereign of Syria, President Bashar al-Assad, and helped maintain a ceasefire since the end of February. But what else did Putin set out to achieve? The Economist argues Russia's entry into the Syrian civil war was really a vehicle for domestic propaganda and for demonstrating its status as a global power, capable of succeeding where the United States had failed—effective, targeted intervention in an ugly conflict. The partial withdrawal was likewise timed at a strategic moment, when Russia could claim credit for bringing the combatants to the negotiation table, yet shed responsibility for any resumption of fighting. But with the peace process deadlocked over the original issue of al-Assad's place in government, Russia has done little to fundamentally change the war in Syria. It remains the case that neither side is winning militarily or politically—instead, the victory is uniquely Putin's. — ET



Lithium: the New Gold of South America

Foreign investors have turned an eager eye to South America, willing to risk the uncertain business environment to reap potentially huge profits in the growing market for lithium. The metal is an essential component in rechargeable batteries, and as such is in high demand from technology firms like Samsung and Foxconn, as well as electric car producers like Tesla and BMW. In Argentina, those with an eye on lithium were enthusiastic about the recent election of business-friendly

President Macri, as the previous protectionist regime made it difficult for foreign investors to access natural resources. While this is reason to be optimistic, the business environment in South America still has its risks. On one hand, the Chilean government—once praised for its pro-business policies by free-market economists like Milton Friedman—has been riddled with market manipulation and tax scandals over the years. On the other hand, Bolivia's geological composition and inclement weather make resource extraction costly and difficult. Interest from investors, despite these risks, is testament to the potential for huge

profits, which could aid recovery in lithium-rich countries where economic growth has been sluggish recently. — TB



Updates:

Coordinator Applications due April 5th at 11:59 M, Interviews April 10th
Finance Society Ice Cream Social April 13th 4:30-6:30
Annual End of the Year Dinner April 22nd at Rotelli's. RSVP through e-mail link
DC Trip April 7-8th

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Malaysian PM Najib Razak is Tip of the Iceberg in Global Money-Laundering Scandal

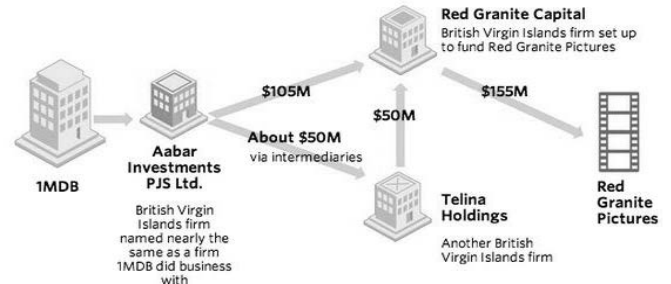
Who would imagine “The Wolf of Wall Street,” an Oscar-nominee movie about Wall Street corruption, might itself be the product of financial corruption? In amazing irony, its production company, Red Granite Pictures, is one of many subjects of an investigation of a global money-laundering scandal. The Justice Department is investigating Low Taek Jho, a wealthy Malaysian who helped Riza Aziz and Joey McFarland found Red Granite, for a money-laundering scheme that could result in the company’s seizure. Aziz, Low’s friend, is the stepson of Malaysian Prime Minister Najib Razak, who is being investigated by authorities in his country and at least five others for allegedly diverting hundreds of millions of dollars from government investment fund 1Malaysian Development Berhad (1MDB). The Wall Street Journal reported that over \$1 billion entered five accounts belonging to Najib between 2011 and 2015. Numbers that just aren’t adding up reveal the global financial system is vulnerable to exploitation by corrupt institutions.

This scandal not only implicates Razak, but also Malaysian officials, multinational businesses, and possibly Saudi royalty. The Malaysian Attorney General cleared Najib and argued in January that \$681 million of this money can be accounted for as a legal political donation in 2013 from the Saudi royal family, but the Journal’s review of Malaysian investigation documents showed no such transfer. Abu Dhabi-based sovereign fund IPIC had a subsidiary called Aabar Investments to which 1MDB purportedly transferred more than \$1 billion, but the money actually went to a firm based in the British Virgin Islands (BVI) off of IPIC’s books. Investigators allege a second firm in BVI transferred the money to Najib’s accounts. Meanwhile, 1MDB entered a joint venture with oil firm PetroSaudi and eventually

used proceeds to invest in a Cayman-based vehicle whose financial standing was questioned by 1MDB’s auditor KPMG. Who directed 1MDB’s dealings with PetroSaudi? None other than Low, who also directed election spending for Najib’s ruling coalition in 2013. If you’re having trouble following along, you read that

Financing ‘The Wolf of Wall Street’

The 2013 Leonardo DiCaprio film came from little-known Red Granite Pictures. Investigators of a Malaysian state fund called 1MDB believe much of the film’s financing originated there and moved circuitously to Red Granite.



Note: Red Granite has said these were loans that are being repaid and that the \$50 million is already repaid. Sources: Malaysia’s Attorney General; people familiar with investigations

paragraph correctly. And yet, the plot thickens.

“Over \$1 billion entered five accounts belonging to Najib”

The actions of former Goldman Sachs chairman for Southeast Asia operations Tim Leissner raise concerns about the role of financiers in the scandal. The Post reported that Leissner helped set up 1MDB, which eventually paid Goldman an unusually high 9.1% commission for its three bond sales. U.S. authorities have not accused Leissner of wrongdoing, but his extensive personal ties with Najib

merit scrutiny in the court of public opinion. Federal investigators are determining whether Goldman employees had reason to believe the proceeds from the bond sales weren’t used for their intended purposes. The problem at hand is not merely a politician’s greed, but the systemic facilitation of his greed. Policymakers and the finance industry must devote more resources to protecting depositors and investors from corrupt institutions, or they leave markets susceptible to descending into unlawfulness. — JK

Make Your Way (Or Don’t) to the Brexit

The clock is ticking for British citizens. The argument for Brexit, a British exit from the European Union, is based on concerns about the erosion of Britain’s state sovereignty. Supporters argue E.U. membership hampers the U.K.’s ability to create unilateral trade agreements, set regulations, and tighten immigration controls. Furthermore, Britain gave more than it received in 2015, sending £18.5B (\$26B) to the European Commission while only receiving £8B (\$11B). In contrast, Brexit detractors state the benefits of E.U. membership outweigh the costs. Contribution per household is minute at £340 (\$450) annually, less than the estimated £3,000 (\$4,200) in economic benefits from participating in a common market, especially as 51% of British exports are E.U. bound. Furthermore, the U.K. is not a member of the Schengen Zone, a unified visa area of twenty-six European nations, belying arguments that U.K. labor markets are significantly harmed by the “free movement of persons.” The short-notice June referendum date set by PM David Cameron was intended to give Brexit supporters insufficient time to organize and preempt the summer tide of immigration. Despite this, immigration fears, coupled with economic woes, may be enough to foment Brexit support. With roughly two months left until decision day, only time will tell which side comes out on top. — JM

