

The challenges and opportunities we face

by Dr. Mahathir Bin Mohamad

The following is the prepared text of the speech given by Malaysian Prime Minister Dr. Mahathir Bin Mohamad at the annual meeting of the World Bank in Hongkong, China, on Sept. 20. Subheads have been added.

When I was invited to speak at this World Bank and IMF gathering more than three months ago, things were going very smoothly indeed for Asia, in particular East Asia—the part which the naive thought it was logical and easy to bring together in an economic caucus, the East Asia Economic Caucus.

East Asian countries were at peace, within and without. Even the fracas in Cambodia had not happened. The certainty was that the nations of Southeast Asia and Northeast Asia would be growing economically and would gradually become economic powerhouses for the rest of the world.

There was much talk then of Asian dragons and tigers, and of course the East Asian miracles. We were quite flattered. We thought they were admiring our strength and our skills.

We had forgotten the experience of Japan and Korea. When these two countries seemed about to catch up with the developed world, things began to happen to them. The yen was yanked up in order to reduce the competitiveness of Japanese goods, while Korea was designated an NIC, a Newly Industrializing Country, which must be stopped in its tracks.

We had even forgotten the lesson of Mexico, whose economy was suddenly blighted, when foreign funds were suddenly withdrawn. Mexico was forced to borrow \$20 billion in order to tide over and restore its fractured economy. Someone made a packet from this loan.

And, of course, we in Malaysia had laughed at the suggestion that our country would follow the fate of Mexico. How could that happen, when our economy was so sound? We had practically no foreign debts. Our growth was high, our inflation low. Politically we were stable and socially harmonious. We had put in place, tried and tested strategies for a continuous 30-year growth plan.

We dismissed the rumor that Malaysia would go the way of Mexico. And indeed it did not. We did not realize how close we were to a manipulated economic crisis. We blithely sailed on. And we were convinced that Mexico, Korea, or Japan and their fates were irrelevant as far as we were concerned. We felt totally insulated against events in other countries.

But now we know better. We know why it was suggested

that Malaysia would go the way of Mexico. We know now that even as Mexico's economic crash was manipulated and made to crash, the economies of other developing countries too can be suddenly manipulated and forced to bow to the great fund managers who have now come to be the people to decide who should prosper and who shouldn't.

I did not know all these, when I accepted the invitation to speak, to speak of our hopes and aspirations, of sharing our prosperity with others. I had wanted to speak about prosperity-neighbor policies, about win-win-win strategies, about the multitude of opportunities in Asia for everyone.

Prosper-thy-neighbor policies

In case you are wondering about what is meant by prosperity-neighbor, I would like to explain again that it simply means, if you help your neighbor to prosper, you will prosper along with it. When countries are prosperous, they become more stable and their people need not emigrate to your country. Instead, their prosperity provides you with a market for your goods, with opportunities to invest and to enrich yourself even as you create jobs and wealth for them.

Poor neighbors are a source of problems for everyone, for themselves and for you. Their problems tend to spill over your borders and undermine your peace and prosperity.

When Japan invested in Malaysia, it created jobs and wealth for us and enabled us to industrialize rapidly. Japan, of course, gained directly from its investments, but more than that, we have become one of Japan's best markets.

Clearly, Japan has prospered by helping us to prosper. This is what is meant by "prosper-thy-neighbor," as opposed to "beggar-thy-neighbor." Everyone gains from "prosper-thy-neighbor" policies, while only one side gains from "beggar-thy-neighbor" mindsets.

Malaysia is a developing country, but we expend a lot of money in helping others. I will not elaborate on what we have done, but we really do, in the spirit of prospering-thy-neighbor.

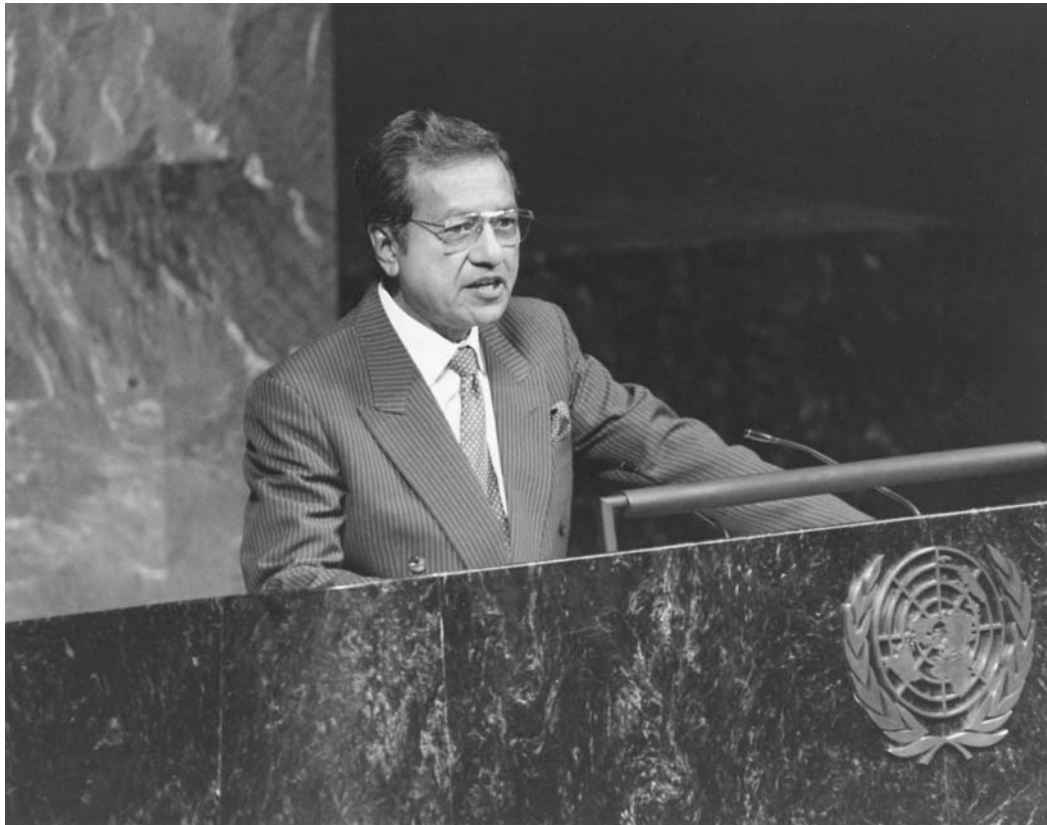
The old mindset can be summarized by the term zero sum game. You win, if others lose; you prosper at the expense of others' impoverishment.

Malaysia had prospered, because we believed in being open when others seemed paranoid about foreigners and were ultra-nationalists, wanting to keep their country's economy to themselves. But in Southeast Asia ultra-nationalism very quickly gave way to pragmatic open economies.

ASEAN, and for that matter the whole of East Asia, seems to subscribe to the prosper-thy-neighbor philosophy. Now, South Asia seems to be picking it up, together with countries in Africa. Imagine how wonderful the world would be if we all help each other to prosper, something that really is entirely possible.

Financial warfare by the ultra-rich

But it would seem that the old beggar-thy-neighbor instinct is still around, is still the guiding principle of a group



Dr. Mahathir at the United Nations in 1991. "Society must be protected from unscrupulous profiteers," he said at the IMF meeting in Hongkong. "I know I am taking a big risk to suggest it, but I am saying that currency trading is unnecessary, unproductive and immoral. It should be stopped. It should be made illegal. We don't need currency trading. We need to buy money only when we want to finance real trade. Otherwise, we should not buy or sell currencies as we sell commodities."

of ultra-rich people. For them, wealth must come from impoverishing others, from taking what others have in order to enrich themselves. Their weapon is their wealth, against the poverty of others.

For almost half a century, the countries of East Asia have toiled day and night, to better the lot of their people. When Malaysia became independent in 1957, the per-capita income of its 5 million people was \$350. By June 1997, after 40 long, hard years of toil and sweat, the per-capita income of its 20 million people was almost \$5,000. After June, you know what happened.

All along, we had tried to comply with the wishes of the rich and the mighty. We have opened up our markets, including our share and capital markets. On the other hand, most foreign companies operating in our country, do not allow local participation. They are not open, but we have not complained. Their profits accrue to their shareholders in their home country. They pay practically no tax.

We were told that we must allow our money to be traded outside our country. We were told to permit short selling, even to let trading in borrowed shares to be legalized. We must allow for speculation. We did all that we were told to do. But we were told we have not done enough. We were told to slow down our growth. We were told that it could not be sustained, that it would be bad for us, that we would overheat. In particular, we should not venture into big projects, the so-called mega projects, even if only to provide

the necessary infrastructure that we were told we needed. And of course, we were told that if we don't provide the infrastructure, then we will not be able to grow. Quite confusing, really.

But Malaysia and its Southeast Asian neighbors continued to grow, to prosper. Disobedient, recalcitrant and at times impudent, these upstarts, Malaysia in particular, had the temerity to aim higher than the developed countries, the powerful, the movers and shakers of the world.

I don't know about the average men in the street, but quite a few people who are in the media and in control of the big money seem to want to see these Southeast Asian countries, and in particular Malaysia, stop trying to catch up with their superiors and to know their place. If they don't, then they will just have to be made to do so, and these people have the means and the wherewithal to force their will on these upstarts.

There may be no conspiracy as such, but it is quite obvious that a few at least, media as well as fund managers, have their own agenda, which they are determined to carry out.

Unscrupulous profiteers

We have always welcomed foreign investments, including speculation. They can come in to buy shares and to get out if they wish to, for whatever reason. But when the big funds use their massive weight in order to move the shares up and down at will, and make huge profits by their manipulations, then it is too much to expect us to welcome them, espe-

cially when their profit results in massive losses for ourselves—in the classic zero sum game theory.

International trading makes currency exchange necessary. Otherwise we may have to resort to barter. Buying and selling currency to finance trade is fine. But out of this evolved pure trade in currency as a commodity.

We are told that the trade in currency is actually 20 times bigger than real trade in goods and services. Other than profits and losses to the traders involved, there really are no tangible benefits for the world from this huge trade. No substantial jobs are created, nor products or services enjoyed by the average people. The whole trading is secretive and a bit shady, as huge sums are apparently moved about from banks to banks. No real money is involved, only figures. One billion Malaysian ringgits would need a big truck to move from place to place. Obviously this is physically impossible, if the Great Train Robbery is not to be repeated hundreds of times over.

The traders apparently make billions with each transaction. But when the funds at their disposal is huge and they are in a position to influence the values of the currencies with their investments and divestments, then the currency markets become cash cows to them. They cannot fail to make a profit, whichever way the index goes.

Unfortunately, their profits come from impoverishing others, including very poor countries and poor people. South-east Asian countries have now become their target, simply because we have the money, but not enough to defend ourselves.

In the case of Malaysia, the ringgit is devalued by 20%. What this means is that we, every one of us, including the government, have lost 20% of the purchasing power of whatever money we have. The poor have become poorer and there are now more poor people in Malaysia. The rich have become poorer too, but we will not waste any sympathy on them, of course.

But the currency traders have become rich, very, very rich, through making other people poorer. These are billionaires who do not really need any more money. Even the people who invest in the funds they operate are rich. We are told that the average return is about 35% per annum.

And we are told that we are not worldly if we do not appreciate the workings of the international financial market. Great countries tell us that we must accept being impoverished, because that is what international finance is all about. Obviously, we are not sophisticated enough to accept losing money so that the manipulators become richer.

We are also warned that these are powerful people. If we make a noise or we act in any way to frustrate them, they would be annoyed. And when they are annoyed, they can destroy us altogether, they can reduce us to basket cases. We have to accept that they are around, that they will always be around, and that there really is nothing we can do about it. They will determine whether we prosper or we don't.

Once upon a time, the U.S. allowed monopolies. Then Rockefeller cornered the oil industry in America and de-

stroyed the small players and squeezed the consumers. The U.S. government decided that this was not right and outlawed monopolies through the Anti-Trust Laws.

A few decades back, some enterprising people hit on the idea of acquiring controlling interest in companies and then stripping their assets. The shell left by them was incapable of giving any return to the small shareholders. Thousands of people lost money.

Again the government stepped in and required anyone acquiring more than a certain percentage of shares to make an offer for the rest. That way, the small shareholders were able to dispose of their shares at the offered price. They were relieved of the possibility of owning shares in useless companies.

To prevent other abuses, anyone buying more than 5% of the shares has to declare.

When insiders made use of inside information to sell or buy their own shares, it was regarded as unfair advantage and was made illegal.

I mention all these, because society must be protected from unscrupulous profiteers. I know I am taking a big risk to suggest it, but I am saying that currency trading is unnecessary, unproductive and immoral. It should be stopped. It should be made illegal. We don't need currency trading. We need to buy money only when we want to finance real trade. Otherwise, we should not buy or sell currencies as we sell commodities.

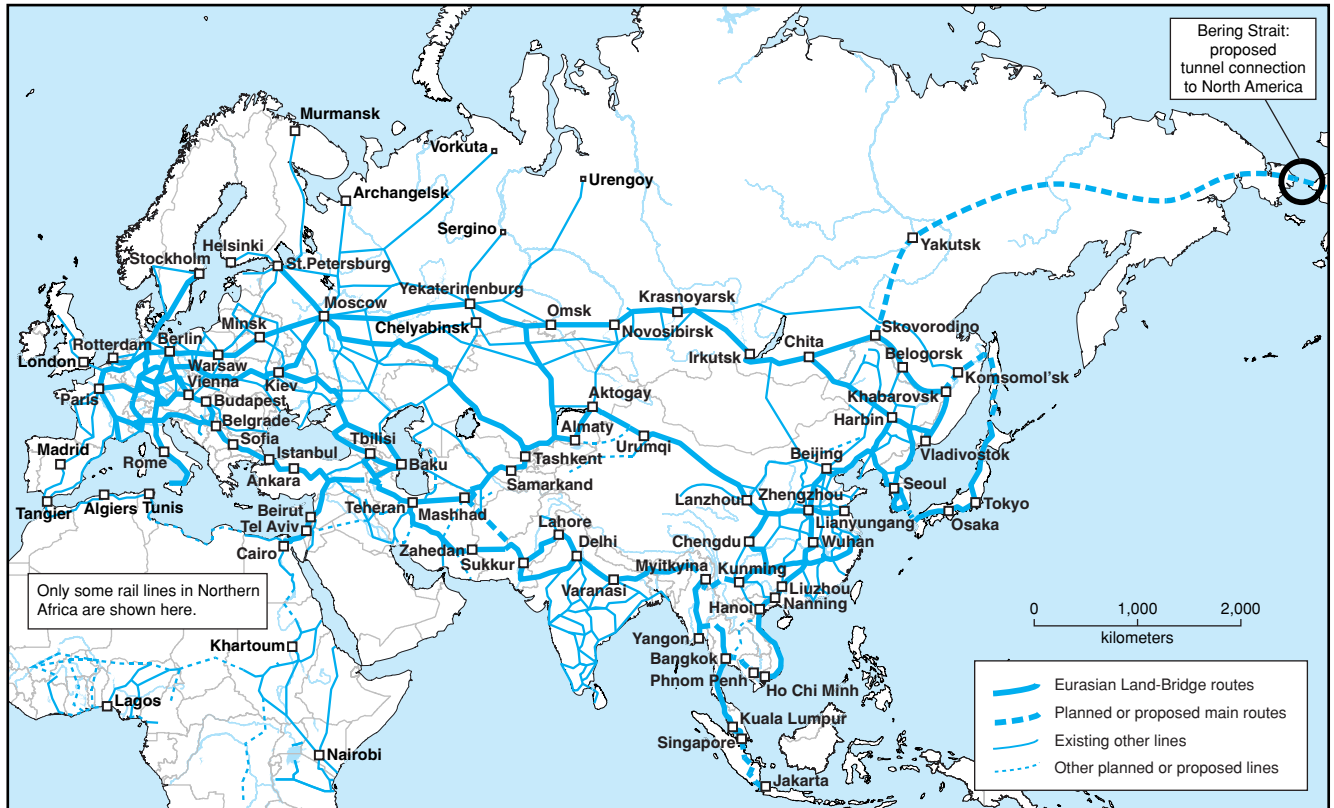
We cannot go back to Bretton Woods and the fixed exchange rates, although we should be honest enough to admit that fixed exchange rates did not hold up the economic recovery of the world in the post-World War period. It was wrong only because it did not really reflect the economic performance of the nations concerned. Sovereign nations were allowed to devalue at will. But the float resulted in nations losing their sovereign rights. Currency traders emerged who made killings, tracking the snake, etc. But they were relatively small players. They were not the movers and shakers who ruled the market. They were mere speculators.

No one, I think, would want to return to the fixed exchange rates. But if anarchy is abhorred by good citizens everywhere, there is no reason why we should not abhor anarchy in the world financial system. A certain degree of uncertainty is fine, but an absolutely uncertain financial world is no good for anyone, except of course for those who deliberately create the uncertainty. But then, these people know for certain what they are going to do and could take cover or take advantage. For them, there is no uncertainty. They are dealing in absolute certainty and they cannot possibly lose. If insider trading is unfair, outsiders who know exactly what is going to happen and then trade, can it be said to be fair?

If trade is to grow, then currency values must be linked to the economic performance of the countries concerned. There are enough indices which can help indicate the value of the currencies, and the rates of exchange. A country that is doing reasonably well at a certain exchange rate should be allowed to maintain the rate. If the country is doing badly, devaluation

FIGURE 1

Eurasia: main routes and selected secondary routes of the Eurasian Land-Bridge



Dr. Mahathir gives an enthusiastic endorsement of the Eurasian Land-Bridge project. "We like to think big," he says. "We even have great ideas for bringing wealth to other developing countries. We proposed the development of the Mekong Valley, beginning with the railway from Singapore to Kunming, because we know that transportation will stimulate economic development. It is a big project, but small projects make little impact on the economy. We want to link up with the railways of China, Central Asia, and on to Europe."

can help the country, by making their costs lower and their products more competitive. On the other hand, if the country is too competitive, it is safe to assume that the currency is undervalued. Since many factors are involved, many rates are possible. Traders can then take the risk and trade in the currency, if they must.

This way, there will not be a fixed rate, but the range of fluctuation will not be too wide. There will be enough uncertainty for genuine traders, but there will not be violent swings as to cause financial crisis for the country concerned. Trade would not be too disrupted and would in fact be enhanced, increasing the wealth for everyone. It would be a win-win situation.

Malaysia's role toward the developing sector

The countries of Southeast Asia have prospered because, by and large, they have managed their economy better than most other developing countries. Their prosperity has contributed to the prosperity of their trading partners. In fact, they have contributed to the economy of many developing coun-

tries by their willingness to serve as models for other developing countries.

In Malaysia, we have always believed that we are better able to convince other developing countries, and in particular ex-communist countries wanting to liberalize, of the benefits of a market economy. When these countries look at Europe or North America, they would feel that the free market economy is beyond their capacity to manage. Europe had taken over two centuries to achieve what they have achieved. These developing countries always feel put off by the complexity and the time required. The centrally planned socialist system had always seemed easier. But as we all know, socialism and communism have failed. Their economic system did not work. The ex-socialist countries need to adopt at least a part of the evidently successful free market system.

When they see that a country like Malaysia, a former colony of Britain, 40 years ago very much like them, fairly successfully managing a market economy, they feel more confident that they can do the same. Some of the other countries of Southeast Asia are also attractive and convincing mod-

els for them. A number of these countries are willing to open their books and even to train personnel from developing countries in economic development and management.

We did not spend as much money as the rich, aid-giving countries; we did not lend money, but we believe that we are more effective in helping many developing countries in Southeast Asia, Africa, Central Asia, and the South Pacific to make the transition from the centrally planned command economy to the free market economy.

Additionally, the Southeast Asian countries learnt about administrative measures and development strategies by observing each other. We adopt what seems right and discard what fails to work. It is no coincidence that we have prospered together. We are each other's models.

Given half a chance, the countries of Southeast Asia can become the systems and strategies engine of growth for a lot of countries in Asia and indeed in other parts of the developing world.

What would happen to the rest of the world, if these developing countries become developed? If it is a zero sum beggar-thy-neighbor world, then we can assume that the presently developed world would become poorer, weaker, and ready for colonization by the New Emerging Developed World. If this is to be the end result, then the developed countries should prevent others from ever developing. North-east and Southeast Asia must be impoverished and rendered perpetually unstable. And of course, the Indian subcontinent, which seems likely to be the next growth region, must be undermined. Under no circumstances must the 1.2 billion people of South Asia, together with the 2 billion increasingly wealthy people of the East Asian region, be allowed to become developed.

To the yellow peril of yesteryear will be added the brown peril. The Europeans will be overwhelmed. Genghis Khan will ride again, and so on and so forth.

But the zero sum game theory is an invention of the pessimists, the xenophobic, the "clash of civilization" people. Whether it will come about or not, depends very much on our present attitudes and what we do now. The attempt to deprive Japan of the raw materials for its industries resulted in Japan launching the Pacific war.

But supposing we all espoused the prosper-thy-neighbor policy, supposing we see in the prosperity of others opportunities for enriching ourselves, then we need not be so afraid of the growing wealth and technological advancements of the developing countries of the world.

I repeat, when Japan invested in manufacturing in Malaysia, we became not only prosperous, but also one of Japan's biggest markets. Today the trade balance is hugely in favor of Japan. And, of course, Japan reaped huge profits from its investments in Malaysia.

Foreign Direct Investments have helped Malaysia, per capita, to increase by almost 1,000% over a period of 30 years.

Better still, we have now acquired the capacity to manufacture and export our own branded goods.

Clearly this was no zero sum game. This was a win-win formula. By helping us, Japan and the others helped themselves. They have not lost one little bit. Even the rest of the world benefitted, because we helped to reduce cost and make goods available to poor people everywhere, particularly in the poor countries. And, of course, Malaysia is not a market for Japan alone. With our wealth and our ever-growing needs, we have become a good market for all kinds of products from all the other developed countries. In other words, Malaysia's prosperity has helped to prosper the developed countries everywhere.

It is the same with all the Southeast Asian countries. We have helped to prosper very many countries, including the rich countries of the North. The trade figures will bear testimony to this.

There are many developing countries which are still very poor. They contribute almost nothing to the wealth of the rich. They need financial support continuously. They are unstable. They have incessant civil wars, famines, and disasters of every kind. Tourists run the danger of being killed in these countries. Huge sums have to be expended on peacekeeping in these countries.

Prosperous countries, on the other hand, are more likely to be peaceful and less of a burden to the rest of the world. A prosper-thy-neighbor policy would therefore give a better return than a beggar-thy-neighbor policy.

There is, therefore, no need to fear the prosperity of the developing countries. They are not going to be a threat to the prosperous. There is no profit in trying to contain them, to undermine them, to prevent them from talking to each other or to their richer neighbors. They cannot be a threat, because they will be too busy competing among themselves to gang up against the developed countries. Asians, in particular, are more ethnically different than Europeans. They can never work together. The clash of civilization will not take place.

There will not be a totally peaceful world of course. There will be local wars. Arms can still be manufactured and sold profitably to these people. But by and large, a generally better developed and prosperous world would be better than one which is divided into the very rich and the very poor.

Despite our bitterness over the attempts to push us back by a decade through forced devaluation of our currency, through the rape of our share market, we in Southeast Asia and in Asia are still keen to receive investments from Europe and America. There has been a lot of talk about our scaring away foreign (meaning Western) capital. But you should also appreciate that we of Southeast Asia, at least, are now very scared about foreign capital. We thought they were helping to prosper us. We conducted roadshows to encourage them to invest in our share and financial markets. We will continue to do so. But we will have to be more circumspect. We still

believe there are sincere investors out there. But there are also quite a few rogues who can cause an avalanche, forcing others to run for cover.

How Malaysia developed itself

We still believe in prospering Asia in order to prosper everyone. The media and the great financial experts may know how or what a country should do, but then, if anything fails, they are not going to be voted out of office. We are, and we do claim to know a few things about developing our countries. Malaysia has become one of the so-called tiger economies, not by listening to the media or the great financial wizards. We have in fact developed ourselves by actually doing the opposite of what the wizards told us we should do. And we think, outrageously and impudently, that the same formula can help develop other countries as well.

We were a commodity producer with only two commodities to sell. Without any skills in the manufacturing industry, we decided to industrialize. And we did. We were told that affirmative action to correct the socio-economic imbalance is not fair and will not work. Our New Economic Policy worked and created a fairer society with no race riots. Similarly we were told that the majority Malays would oppress the minorities. Instead Malays, Chinese, Indians, Iban, Kadazan and 30 other tribes work harmoniously together.

We were told that a developing country should not aspire to go into the automobile industry. We did, and we have succeeded.

Privatization was a newfangled thing when, in 1982, we launched our privatization program. Many developed countries failed in their privatization. We have privatized more than 400 government departments, companies, and functions. We have succeeded and we are still going on.

Japan Incorporated was condemned. We made Malaysia Incorporated our creed, and it has helped our country to grow and prosper faster than most other countries.

I will not bore you with tales of our rejection of the conventional, including raising our interest rates in order to protect our ringgit. As you know, we went the other way.

Infrastructure: 'We like to think big'

One of the unconventional things we did was to go big. Our 830-km North-South Highway, our six-kilometer wharf at the new West Port, our Penang Bridge, the Kuala Lumpur Telecommunication Tower, the Petronas Twin Towers, and many, many more big projects we have completed, have all contributed to our growth and our wealth. They are not monuments, but basic infrastructure.

We are building the biggest airport in Asia for Kuala Lumpur, because of sheer need. Our present airport, built 33 years ago, was for 400,000 passengers. It now handles 16 million and has no room for expansion.

All over the world, governments find difficulty in locating

new and necessary airports. It would be stupid to build a new airport to handle 1 million more. We will never find another site when the need arises for a bigger airport. If you must build a new airport, build it big enough at least for the next 30 years, if not 100 years. But we were told that we should not build a mega-airport. Why? Because you think it would undermine our economy, in which you have invested. You do not want our economy to go under, and you will lose your money. But please give us some credit for knowing something about managing our country.

We like to think big. We even have great ideas for bringing wealth to other developing countries. We proposed the development of the Mekong Valley, beginning with the railway from Singapore to Kunming, because we know that transportation will stimulate economic development. It is a big project, but small projects make little impact on the economy.

We want to link up with the railways of China, Central Asia, and on to Europe. Central Asia is landlocked, and cannot develop because of it. You build VLCC to transport oil and bulk cargo for yourselves. Why cannot an ultra-wide gauge railway with trains of two kilometers be built, to move goods in and out of the Central Asian Republics? They can then prosper and the world will have another big market.

We have other big ideas to prosper our neighbors, to prosper everyone, the developed countries included.

But we are not going to be allowed to do this, because you don't like us to have big ideas. It is not proper. It is impudent for us to try, or to even say we are going to do it. If we even say that when we have the money we will carry on with our big projects, you will make sure we won't have the money by forcing the devaluation of our currency.

Beggar-your-neighbor, this is the mindset of some people. They will not help. Worse still, they will block, obstruct, and undermine.

The West has nothing to fear from us

Asia is full of great opportunities, not just for Asians but for everyone. Given half a chance, we can prosper. We cannot all be as big economically as Japan, but we will not be excruciatingly poor. If the countries of Europe and of North America can be almost uniformly prosperous, we don't see why we cannot be allowed to be a little prosperous.

We will not act in concert against the rest of the world. We are not ethnically related as are the Europeans. We come in various colors and shades, practicing different religions, speaking different tongues, and with very different cultures. We will always disagree with each other, possibly fight against one another, leaving us little time to confront others from Europe. You have nothing to fear from the prosperity and well-being of the Asians. You have everything to gain, for our prosperity will contribute to your prosperity and the prosperity of the rest of the world. So think of Asian opportunities and seize them.