

Malaysia's Mahathir says, 'The IMF is not an option'

by Gail G. Billington

Malaysia's Prime Minister Datuk Seri Dr. Mahathir bin Mohamad made an extraordinary intervention into the U.S. political and economic establishment during a four-day visit to New York City on Sept. 26-29, which included the annual dinner of the Asia Society, an interview on PBS-TV's Charlie Rose show, the launch of the Malaysia-U.S. Business Council, an address to the elite New York Council on Foreign Relations, and an address to the UN General Assembly. From New York, Dr. Mahathir traveled, via London, to Victoria Falls, Zimbabwe, for the third South African International Dialogue '99, where he joined nearly a dozen African heads of state and 400 participants in a three-day meeting to discuss their economic options.

The U.S. press blacked out the Prime Minister's trip. *EIR* provides limited excerpts from the address to the Asia Society and the speech to the UN General Assembly. The SAID '99 conference will be covered in a future issue. The message in New York and Africa was identical in this respect: "The International Monetary Fund (IMF) is not an option." Full texts of the four New York speeches are available, and well worth reading, at <http://www.smpke.jpm.my>. Subheads have been added.

'We are not about to lift controls'

Excerpts from Dr. Mahathir's speech, "Financial Stability Through Exchange Controls: Malaysia's Experience," to the Asia Society annual dinner, New York, Sept. 27, 1999.

... Since July 1997, Malaysia and a number of Southeast Asian economies together with Korea have been afflicted by such a severe financial crisis that it has destroyed the Asian tiger image of our countries. . . . As is well known, Malaysia adopted a home-grown set of policies and strategies as enu-

merated in the National Economic Recovery Plan (NERP) that was launched in late July 1998.

Since independence Malaysia had managed its economy and finances relatively well. We did not depend on foreign aid nor did we borrow much from foreign sources, neither the government nor the private sector. We, therefore, believed that we would not get into the kind of trouble that Thailand or the Latin American countries often suffer from.

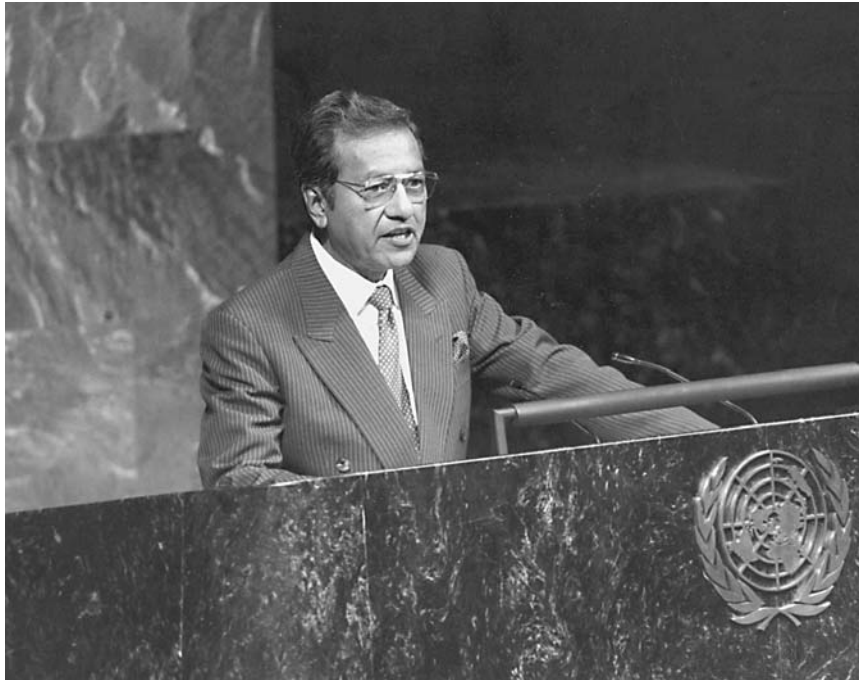
Unfortunately the currency traders did not spare us. . . . Corruption, nepotism, cronyism and lack of transparency were all there, all the while that the economies were achieving their so-called "miracles." . . .

The currencies only devalued rapidly when the currency traders started short-selling them. . . . Their leveraged funds were unlimited and it was futile for Central Banks to buy all that the traders were selling. . . .

I am sure all of you know how currency trading is done, but I have to relate the process because people talk of devaluation as if currencies have sensors and can detect when the governments are corrupt, nepotistic. . . .

Malaysia had some experience in currency trading, but we confined ourselves to the currencies of rich countries. . . . We never . . . could leverage enough in order to move the market in the direction we wanted. When Britain failed to join the European Monetary Union, we lost almost 2 billion ringgit [Malaysia's currency]. We got out, but we learnt valuable lessons, which stood us in good stead when our ringgit was attacked by currency traders. We knew what they were doing, how they were doing it . . . and were finally able to frustrate them and save our currency.

Initially, we thought of countering the currency traders' impoverishment of our country and people by increasing the



“Since the IMF is not an option for Malaysia,” Malaysian Prime Minister Dr. Mahathir bin Mohamad told the Asia Society in New York during his recent visit, “we had to think of something homegrown. The only way for the economy to recover was for the exchange rate of the ringgit to be stabilized and the stock market to be protected from further attacks.” In this photo, Dr. Mahathir is shown addressing the UN General Assembly in 1992.

incomes of all our people. This involved putting more money into circulation. . . . But it would not stop the currency traders. . . . We cannot print money and then destroy it. And so we rejected the idea. . . .

The National Economic Action Council

We set up what we named the National Economic Action Council with members from both the private and public sectors. . . .

An Executive Committee of seven pored over economic data daily and decided on actions . . . to prevent the economy from collapsing and to rejuvenate it. Thus, the unemployment rate was minimized, inflation kept low, sales of goods . . . were stimulated, interest rates lowered and enough money made available to the banks; imports were reduced, while exports were increased. We watched the balance of trade as it turned in our favor.

We implemented scores of schemes to minimize the effect of the ringgit devaluation and the fall in share prices. We estimated we lost about \$50 billion in terms of purchasing power of imports and \$150 billion in market capitalization. . . . We had to put a stop to the slide or we would have to turn to the IMF . . . and surrender our control over our economy.

Malaysia is a multiracial country where wealth is not evenly distributed. In 1969, we had race riots due to jealousies

over economic wealth and political roles. We devised an affirmative action program and shared the governing of the country with more of the opposition parties. . . . Our strategy worked. . . .

The IMF wouldn’t understand this. They would force their standard formulas to be implemented. Banks owned by different ethnic groups, a politically sensitive matter, would be closed. Credit would be tightened, interest rates increased, and the NPL [non-performing loans] percentage would be increased by shortening the period of default. They would want to see companies bleeding to death to show how sincere the government is in implementing their orders. Foreigners should be allowed to buy shares unrestricted after the short-sellers had reduced the share prices to one-tenth of their former market value. The banks should be sold to rich foreign banks at fire-sale prices.

If the people suffer from unemployment and inflation, then they should blame the government for practicing cronyism and nepotism in the past, for being corrupt and not transparent. They should overthrow the government in order

to create confidence for foreign investors to buy up the local businesses. . . .

Preventing race riots

The financial turmoil had already undone most of the success of the affirmative action. The IMF in its usual uncaring way, would worsen the situation further. And there would then be race riots and prolonged political instability. Then the foreign investors would not come in, as in Russia and Latin America, where there was a lot to be made by undermining the economies of these nations.

Since the IMF is not an option for Malaysia, we had to think of something homegrown. The only way for the economy to recover was for the exchange rate of the ringgit to be stabilized and the stock market to be protected from further attacks. . . .

To stop the currency traders from borrowing Malaysian ringgits and selling it down, the government declared that ringgits outside the country in whatever form . . . would not be allowed to be repatriated to Malaysia one month after the control was made official. . . . Effectively, this made ringgits held abroad totally worthless. . . . Short-selling was stopped and only the Malaysian government could determine the exchange rate. . . .

Making the ringgit worthless outside Malaysia . . . re-

sulted in a massive inflow of the ringgit. There were now sufficient funds in the banks for the interest rates to be lowered drastically. . . .

When the government was implementing the IMF policy without the IMF, an attempt was made to have a surplus budget by cutting back on government expenditure by 21%. Since 80% of government expenditure is on emoluments, cutting back by 21% meant no development expenditure. . . .

When controls were implemented, the government decided on a deficit budget and restarted all the development projects. . . .

When we imposed controls, we were vilified and condemned by practically the whole world. We were told our economy would be shattered. . . . We were called pariahs, idiots with no understanding of economics and finance.

Now the comments are kinder. Even our most virulent critics have admitted that we have succeeded. . . .

But now we are being advised to lift controls. . . . We are not about to do so, not unless the world curbs the currency traders and designs an international financial structure that is less liable to abuse by the avaricious.

I am trained as a medical doctor. I not only have to cure my patients but also to advise them not to expose themselves to a recurrence of the disease if possible. . . .

What is important to us is that we do well for our country and our people. . . .

'The world could become poorer because of free trade'

Excerpts from Prime Minister Dr. Mahathir's address to the 54th session of the UN General Assembly, New York City, Sept. 29, 1999.

. . . Before we enter the 21st century, it is useful to review the events of the 20th century so we may learn from our experience and hopefully we will know how to conduct the affairs of the 21st century.

The 20th century saw the most destructive wars which destroyed billions of dollars of property and killed millions of people. . . .

When the greatest war in human history ended, this august body, the United Nations, was founded. We thought there would be peace as the great powers worked together in the United Nations. But not so. Immediately, the victors divided themselves into two camps and initiated the Cold War. . . .

For the colonies of European nations, there was an upside. . . . Countries gained independence, but their survival depended on their skills in playing the Western bloc against the Eastern bloc.

Unfortunately, this choice to defect to the other side did not last. Suddenly, the Communist side collapsed. . . . The Eastern bloc . . . were naive enough to think that after 70 years of command economy and dictatorship, they could overnight switch to the free market economy. . . . They soon found out

that they knew nothing about how to make the system work, and that they would get no help from the Western nations. Instead, the Western nations saw in their incompetent floundering, an opportunity to destroy the Eastern bloc, in particular, the principal flag-bearer [Russia], forever.

Even as the inability to manage a free market resulted in galloping inflation, destruction of state enterprises, and massive unemployment, the hedge funds and the Western financial institutions moved in to devalue the currencies and make debt defaulters of this once powerful enemy. . . .

The destruction of the Eastern bloc was complete. It could never again militarily challenge the Western liberal democratic free marketeers. . . .

For the small countries, the demise of the Eastern bloc is a major disaster. Now they are exposed to pressures, which they cannot resist. And, very quickly, they learnt that the free marketeers intend to milk them dry. As for their politics, the instability of the liberal democratic system that comes with a lack of understanding of its intricacies by the leaders, as well as the people, meant that they would stay in a state of continuous turmoil, verging on anarchy.

A few countries apparently managed to grow and prosper. But not for long. The currency manipulators and short-term investors of the rich soon impoverished these countries through devaluing their currencies and share prices. Impoverished and politically unstable, they were forced to borrow from the IMF. Whether by design or through sheer lack of understanding, the economic regime imposed by the IMF destroyed their economies further. Soon their political freedom was also subverted, and many had to accept political direction by the IMF, or the loans would not be made available. For practical purposes, there was no independence.

The threat of globalization

And so, for the small independent countries of the world, the future looks bleak. They are now being told that the world should be borderless, that capital, goods, and services should flow freely between countries. There should be no discriminatory taxes to protect local industries or products. Local banks, industries, and products must compete on the same footing as imported products, and their banks and industries must compete with foreign banks and industries set up in their countries. No conditions must be attached to foreign banks and businesses. . . .

There will be no more big local companies. There will only be branches of large foreign companies. . . .

The efficient giants may produce better and cheaper goods, but if a country does not export its own products to earn foreign exchange, it will not be able to pay for imports. . . .

Free unrestricted flow of goods and services across borders may be good for a while. But, eventually, it will destroy markets and result in contraction of world trade. The world would actually become poorer because of free trade.

After the last World War, the confrontation between East

and West led to most of the colonies . . . becoming independent countries. . . . Unaccustomed to wielding so much power, many of these governments failed. . . .

But the principle that prevailed in the third quarter of the 20th century was that no one should interfere in the internal affairs of a nation. That, in fact, was the essence of independence. As long as the world was divided into Eastern and Western blocs, this principle was respected.

The 'Bush doctrine'

But then a President [George Bush] decided that his country had a right and a duty to oversee that human rights are not abused anywhere in the world irrespective of borders and the independence of nations. No one conferred this right on this crusading President. But small things like that were not going to stop him.

The claimed victory of the West in the Gulf War was regarded as a moral endorsement of the right of the powerful to interference in any country's internal affairs. Soon it was not just human rights. Systems of government and the administration of justice, of the financial and commercial systems, came under the scrutiny of the powerful countries. They insist that there must be only one way of administering a country, . . . only one economic system for the whole world, and that is the free market system. They insist that there must be openness in everything. . . .

They seem to have forgotten that they took centuries to make their system work. Their transition from feudal oppressive rule was bathed copiously in blood. . . . Even today, their system has not brought about freedom and equity to large segments of their people. . . .

But the new countries are not going to be allowed time to learn and operate the system. . . . If their countries are destabilized, if their people suffer, if they regress economically, these are irrelevant. The important thing is that they must democratize and liberalize. If they fail to do so, they would be forced to do so through arm-twisting, trade sanctions, and military action, if necessary. That these measures are more oppressive than those of the disapproved regimes and systems does not matter. . . .

And so, giant currency traders, their funds leveraged a hundred times or more, are pitted against central banks with limited reserves and without leveraging rights. The economies of whole countries and regions are destroyed, but the cries for protection by these countries are ignored. . . . All the currency traders are doing is to discipline governments, so that they conform to the system. . . .

The issue of human rights

There is a touching concern on the part of the West over human rights. But the definition of human rights seems limited to an individual's right of dissent against the government. Millions of people in a country will be made to suffer through sanctions and even bombings in order that a few

dissenters may enjoy their rights of dissent. Apparently, the rest of the population, hundreds of millions of them sometimes, have no rights. . . . Thus, the deprivation of the right to work for millions resulting from currency trading is not considered as a violation of human rights. In the Western perception, only individuals have rights, the masses do not. . . .

Child labor and sweat shops are not something which anyone would defend, but consider the extreme poverty of the people in some countries. They have no capital, no technology or expertise, no markets at home, no Harvard-trained managers. . . . For the workers, the tiny wages that they earn is far better than starvation and death. If we really care, then invest and pay high wages, and the sweat shops will disappear, and adults will earn enough to feed their children. . . .

The United Nations seems helpless. Indeed, it is often bypassed by the big and the powerful. Now, groupings of powerful nations or even one nation by itself seems to decide when to step in, and when to step out. While they like to wield power, they are inordinately unwilling to pay the price. Telewars are conducted using high-technology . . . to avoid the body bags from coming home. This unwillingness to face the enemy often results in unnecessary killing of innocent people and destruction of wrong targets.

Unfortunately, no one should expect any change for as long as the United Nations belongs to the Permanent Five. The structure of the United Nations will continue to reflect the glorious victory of these nations fifty years ago. . . .

This, then, is the scenario in the last quarter of the 20th century. We will carry this baggage into the 21st century and the new millennium. For the poor and the weak, for the aspiring tigers and dragons of Asia, the 21st century does not look very promising. . . .

Malaysia has just gone through a very traumatic experience. In a matter of weeks, 42 years of hard work to develop the country was destroyed, in particular, the affirmative action to reduce the animosity between the races in Malaysia.

We have devised our own formula for recovery. . . . But we are being pressured to abandon our currency controls. We do not understand. It has done us a lot of good. . . . But we are still being urged to conform to an international financial system, which has enabled the unscrupulous to destroy the wealth of many nations.

No serious attempt is being made to change the international financial system. So far, there is only talk. . . . But the threat of financial, economic, and political destabilization remains.

Malaysia only wishes to be allowed to manage things in its own way in the interest of its own people. . . .

We are not too enchanted by the prospects we foresee in the next century. But I can assure you that we will be a responsible nation, friendly toward all who are friendly toward us, and harboring no bad intentions toward anyone.