

Dr M's views on tackling Asian crisis gaining acceptance among experts 59

LET me pose a teaser to our esteemed readers. Who would you attribute the following statements to?

● There is a real possibility the world could be heading for a recession. Governments should, therefore, lower interest rates to stimulate growth.

● Some of the recommendations by the International Monetary Fund (IMF) for South Korea, Thailand and Indonesia could have been inappropriate and could have aggravated the extent of their economic distress; and

● There is now an urgent need for a comprehensive study of the operations of the hedge funds and currency speculators to prevent volatile and unnatural distortions in the currency markets.

Many of you would attribute the above comments to Prime Minister Datuk Seri Dr Mahathir Mohamad. You are right.

But hold on. This is October 1998 and actually, the above statements were all made last week, at various functions, by top officials of the World Bank, the IMF and the US Treasury.

Dr Mahathir said all those things — in his usual blunt manner — almost exactly a year ago at the World Bank/IMF annual general meeting in Hong Kong.

Back then, he was dismissed as an economic heretic. And like most heretics, he was seen to be challenging the established eco-

nomic orthodoxy by spreading a false and subversive doctrine.

It's probably with some satisfaction for the prime minister to know that he has been vindicated on some crucial economic issues confronting the world at the end of this millennium.

But that's cold comfort because he now has the awesome burden of turning an economy that has fallen into recession, at a time when the international environment is becoming increasingly hostile.

The IMF, in its latest *World Economic Outlook*, is forecasting world growth to fall from 4% to 2% this year, largely because of the Asian crisis, rising to only 2.5% in 1999 with the Asian recovery.

We can only speculate why it took so long for the international financial institutions and the US administration to change their attitudes on the Asian economic crisis.

But it's a truism in both political and economic life that one reacts with greater urgency if the problem is closer to home.

Contagion is no longer a risk — it's a fact of life. And that's probably what forced the movers and shakers in the West to focus their thoughts on the Asian economic crisis.

Going by comments in the western news agencies, journals and financial newspapers, it

COMMENT

By WONG SULONG

would appear that western perception of the currency and stock market crisis can be divided into three phases.

The first phase — beginning with the attack on the Thai baht in June 1997 to the resignation of President Suharto in May 1998 — was perceived and elaborated in the West as purely the result of the excesses and corruption of Asian governments and their cronies.

This can be described as the *schadenfreude* phase during which western leaders expressed public sympathy and concern on what was happening in Asia, but privately, they were saying "serve them right."

This was followed by the Russian currency and economic crisis. The western perception on the matter was that Russia fell victim to the Asian contagion because of its weak political institutions and widespread corruption among its elites.

Western commentators drew attention to the fact that the billions of dollars poured in by the IMF were quickly turned around and found their way to the Swiss accounts of the Russian elites.

Now, we are witnessing the third phase, where the currencies and economies of Latin

America are showing signs of collapse, and even the mighty US economy is starting to feel the Asian contagion.

Agency reports say the IMF is planning a US\$20bil-US\$30bil rescue for Brazil, Latin America's most vulnerable domino, as its newly re-elected president, Fernando Henrique Cardoso, ponders over tough decisions to curb capital flight and the slumping stock exchange.

In the US, the sudden collapse of Long Term Capital Management Company (LTCM), one of the most respected and biggest hedge funds, last week has sent shivers of fear among US and European investors.

With a wobbly Dow Jones, the question being asked is: How many LTCMs are lurky in the background?

The US authorities have quickly hammered out a US\$3.6bil rescue for LTCM, fearing a systemic collapse among the hedge funds, should the company be allowed to fail.

Here, in Asia, we should be asking: "If western governments and financial institutions can respond so quickly to distressed economies within their own region and even rescuing speculative hedge funds, why are they insisting that distressed Asian corporations be allowed to fail and their assets sold at fire sale prices?"

Western governments and institutions demand transparency from Asian corporates, but how much transparency are we getting from the hedge funds or even the western banks?

From the little that has emerged so far about LTCM, a good number of the blue-blooded American and European financial institutions have big exposures to the leveraged firm.

When the Asian crisis broke out, Japan was prepared to launch a US\$100bil rescue fund for Asia but western governments objected strenuously, insisting that any aid should be channelled through the IMF, instead of on a bilateral or regional basis.

Now, Japan is offering a US\$30bil aid package to the afflicted Asian countries and this time, the West has not signalled its objection.

Valuable time has been lost and there has been so much human suffering.

Granted what the Malaysian government has done in recent weeks to the economy is not orthodox, or popular with the West.

But what it is doing is to insulate its economy against speculative attacks and buy some time to sort out its own economic problems in ways it knows best.

Is that such a big heretical crime that Malaysia has to be ostracised and abused?

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