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Give credit where credit's due

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THE first lesson they teach in columnist school is that even if you have mixed opinions about some issue - and you are torn 50-50 - when you write the column you have to come down 100 to 0 for one side or the other. The case of Malaysia compels me to break that rule.

The issue is this: In the wake of the Asian financial crisis, Malaysia's mercurial Prime Minister, (Datuk Seri Dr) Mahathir Mohamad, spurned the advice of the IMF, the US Treasury and many economists and adopted capital controls to stabilise his country's currency and protect it from speculators. Thailand, Korea and Indonesia, by contrast, kept their economies open, liberalised their political sectors and took the IMF medicine.

So who won? For now, everyone. All four countries are recovering, and Dr Mahathir boasts that his much-derided capital controls have worked just as well as the cures that all the economists were trying to foist on him. This Malaysian case has significance because it could encourage other countries to adopt capital controls, rather than the Anglo-American model of steadily opening up to free flows of capital.

Is Dr Mahathir justified in his boasts? Now we come back to the lead of this column: the answer is yes and no.

Capital controls can never be a long-term solution for an export-oriented economy such as Malaysia's. They are instituted to buy time to stabilise an economy. So the real question is, how has Malaysia used the time since Sept 1, 1998, when it barred foreign investors from taking their funds out of Malaysia for a one-year period after their investment in order to curtail the movement of hot money? Answer: Economically, Malaysia has used the time pretty well. Politically, it has gone backward.

Economically, one has to give Dr Mahathir his due. When he put on the controls, he wisely fixed the Malaysian ringgit at a low rate - one that has made Malaysia's exports quite attractive, prevented the rise of a black market and been easily defensible with conservative fiscal and monetary policy.

Several Malaysian businessmen told me this fixed, cheap ringgit has allowed them to plan again. Malaysia's economy should grow two per cent this year (pre-crisis it was at eight per cent), the local stock market has perked up and some foreign investment is coming back.

Also, the state has begun forcing the merger and restructuring of weak banks and corporations. This is critical, because it was the excessive lending and borrowing of these institutions, and the lax oversight of them, that got Malaysia in trouble in the first place, with overbuilding.

The restructuring, though, remains limited. Still, all in all, Dr Mahathir is entitled to boast on economics - a little.

But not on politics. Dr Mahathir's decision last year to oust his popular deputy and emerging rival, (Datuk Seri) Anwar Ibrahim, on sodomy charges has embarrassed many Malays and engendered a sense of political risk here that is still keeping many foreign investors away. (Mr Anwar, who was making a bid to oust Dr Mahathir, says he is being framed because he was about to expose high-level corruption.)

This political turmoil is the main reason Malaysia has to pay one per cent more for its foreign borrowings than its neighbours. The whole sordid Anwar case has rattled the country. As one Malaysian intellectual put it: "The message is that if this can happen to Anwar, what about mere mortals

like us? So you better keep your mouth shut."

I believe that while Malaysia is recovering from the immediate economic crisis, the only way it will return to sustained high growth, and prevent another crisis, is with improved productivity and efficiency. That requires political reform - in corporate governance, in the judiciary, in regulatory institutions, in the free flow of ideas. All of these have been undermined by the Anwar case.

"It's a Shakespearean tragedy," a Malaysian woman friend remarked. "The truth is Anwar and Mahathir made a good team. Mahathir had the courage to make bold economic reforms, even create a Multimedia Super Corridor.

"And Anwar combined a sense of Islamic tradition and Asian renaissance that appealed to the young and middle classes that Mahathir's own economic reforms gave birth to. Without Anwar, things are out of balance.

"The two of them are destroying each other and unmaking their own achievements. I think the only hope for Mahathir is, when the Anwar trial and elections are over, if he really makes an effort to redress the damage done to our institutions by this whole affair."

And what are the chances of that? I'd guess about 50-50.