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COVER STORY

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Exclusive interview - Dr Mahathir

Asia Inc Executive Chairman Timothy O'Neil
and Editor Stuart Parrott talk to the
Malaysian Prime Minister

MAHATHIR

US military presence in the region won't help, says PM

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protect the interest of the country. Not my interest.

Q: A statement by a group representing human rights said Anwar Ibrahim, your former number two, who is in jail, is in critical condition and suffering from serious spinal injury from brutal beating.

A: And you believe that?

Q: No, I want you to respond to that. They say they want Anwar Ibrahim to go for medical treatment abroad. Will you allow that?

A: There was a doctor who came more than a year ago, who said that unless Anwar Ibrahim is released and taken out of the country for treatment in Europe, he would die. Now, it has been more than a year. He is still walking around.

Q: The fact is that this man was also your political opponent and that you will use again any opportunity to get rid of someone you thought is a threat to you.

A: He was not a threat to me.

Q: Why not release him and allow him to say what he wants?

A: He has been writing on the Internet all scurrilous things about the government. We have never even stopped him.

Q: The Middle-East, an issue you have come out fairly strongly. You've been complemented by the US for promoting a moderate voice in the region, for criticising suicide bombing. What do you feel needs to be done in the Middle-

East?

A: We must attend to the cause of the why people behave there. Why these people commit or carry out suicide bombing. We have to determine the causes, remove the causes, the UN should move in and separate the combatants, and the border between Israel and Palestine must be identified and the state of Palestine as well as Israel must be recognised by everyone.

Q: Do you think that the US could do a better job in reaching out to the moderate voices.

A: People can always do better than what they are doing now. Everybody...

Q: You don't think that there is anything more they could do to lean on the situation in the Middle-East.

A: Probably.

Q: Yes? Like what?

A: Like they can have a common stand on this issue and decide.

Q: How do you see your role as a leader in the Islamic world. Do you think you (can) bring that moderate voice (to) lead somewhere...?

A: I don't consider myself as a leader in the Islamic world. I am a leader in Malaysia. I don't have ambitions...

Q: Malaysia forecasts a 3.5% growth. Is that still on track?

A: I think so.

Q: Recently, you have been on an arms buying spree. The scope and scale of these purchases suggest that you want

to expand some kind of regional influence. They suggest that a strong military could add weight to Malaysia's economic strength. Why are you making these moves?

A: We are merely upgrading our armaments because now we have more money than we had before. Obviously, we are going to buy the latest and we are going to buy more. It's a question of how much money you spend. Our budget for defence is very low. In Malaysia, 20 per cent of our Budget goes to education, which is our priority, not arms.

Q: How concerned are you about the rise of China as a superpower?

A: Not at all concerned. We are very good friends of China.

Q: Do you think the US should maintain a military presence in the region?

A: I don't believe that having military presence will help. You are merely going to make the Chinese nervous, make them feel they are the future enemy, and if you treat people as your future enemy, they will become your present enemy.

Q: Final question. You have been the leader of your country for 21 years. Looking back on your leadership, on a personal level, is there anything you would change or do differently.

A: Not much. I think I would have done the same all over again.

More people are inclined towards terrorism today than before September 11 because of the worsening Israeli-Palestinian conflict, says Malaysian Prime Minister Dr Mahathir Mohamad. In an exclusive interview with *Asia Inc*, Mahathir also speaks about the darker side of globalisation, Asia's economic future and the economic challenges posed by China and Japan. And Asia's longest-serving leader speaks of his passion for horse-riding and his recent visit to Antarctica.

Q: Malaysia is a confident, prosperous, modern cosmopolitan country and a star performer in the global economy. Yet you are ambivalent about globalisation and what it means for developing countries?

A: The present proponents of globalisation are thinking merely in terms of free flows of capital and nothing else. That's what George Soros talks about. That as long as capital can flow freely then we have achieved globalisation. But globalisation is more than that. It's also about equitable distribution of wealth, about overcoming poverty, using the whole power and wealth of the world. It's about fair treatment, about not applying pressure to force people to do things they don't want to do, or is not good for them. Of course, capital can come in and take over businesses, and big capital, huge capital, can dominate the world. And that obviously will lead to some people, the people with the capital, benefiting — but others will not. But those countries without capital are not going to benefit even if the inflow of capital may help their country but in return they have to give up their independence. That's why I have been critical about globalisation in its present form. But I believe there must be globalisation simply because the world has become too small, communication is good and quick, you can fly anywhere in a day, you can reach any part of the world, and you can communicate in real time. So that physically leads to globalisation.

Q: There are some aspects of globalisation that you'd accept, like technology, and others that you reject. But do developing countries have these choices?

A: What we are saying is that if you are weak, then you have no choice. If you are strong, you can choose. That

in itself is something that I cannot accept: the inequitable application of power. People should listen to poor countries, weak countries, as much as they should listen to the rich. We can see the kind of disaster the rich countries have created. The East Asian countries were all booming economies, miracle economies. The rich countries have destroyed that. They have destroyed these economies in order to make a few billions for themselves, destroyed billions of dollars. In the case of Malaysia, we lost almost \$300 billion and I think the currency traders could not have made more than five billion. To destroy \$300 billion to make five billion is criminal. Why do you have to destroy the economies of people in order to make money for yourself? The voices of the weak countries must be given a hearing. Because they are the people who are going to pay the price. If you have pragmatic ideas, then it is not the ideas themselves that count but the results of those ideas. If you look back in history, there was a time when the idea of socialism, of communism, was thought of as great because it was going to make everybody equal to each other. But over 70 years, people were killed, murdered, and massacred in order to create a communistic, socialistic system. And in the end they discarded these things because it didn't work. That shows that ideas may sound good at the beginning but may not deliver.

Q: You shocked the West by imposing capital controls during the Asian financial crisis. Today, the decision is acknowledged to have been the right thing to do, given the context of the time. Was it a difficult decision?

A: It was difficult but it was based on an intimate and detailed knowledge of the mechanism of currency trading and what actually happens on the ground.

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Without that knowledge, we would not have been able to devise a method to counter the currency traders' activities. Even among ourselves, many held orthodox views and didn't want to do something so unusual. They wanted to follow so-called conventional wisdom. But we convinced ourselves that our approach could work. We knew all aspects of the mechanism of the attack on the currencies and we knew how to stop it. And we stopped it.

Q: If you had to describe Malaysia's approach to globalisation in one sentence, how would you do it?

A: Firstly, listen to everyone, don't make decisions based on the very rich and the strong only, listen to the people, listen to those with experience. Number two, always accept that there are many ways to skin a cat, many ways to do things in order to achieve results.

Q: September 11 and its implications: has the world changed and in what way?

A: The world has changed in the sense that no-one any longer feels safe, no matter where they are. Even if you are in the strongest nation in the world, you are still subject to attacks. Therefore the world will have to come to terms with the fact that you cannot retreat behind your borders any more. The other thing is that the world now lives in fear. We fear things, we are afraid to fly, we are afraid to go to strange places, many people are afraid of Muslims because the newspapers have said that the Muslims are the terrorists. They ignore the fact that others are also terrorists, that the

Israelis are terrorists, so the perception of Muslims now is very bad because they equate us with terrorism and we are in many ways suspected and badly treated. So the world has changed for the Muslims especially. Today, we are seeing people taking advantage of this fight against terrorists to achieve their own ends: in the name of fighting against terrorism, Israel has invaded Palestine, killed a lot of Palestinians, and their excuse is, 'We are going to stop terrorism by counter terrorism.' So the world has changed. We are living in fear now, and we have no borders behind which we can retreat.

Q: Your speech at the special session of the Islamic Conference of Foreign Ministers has won admirers in the US because of your definition of terrorism. Do you think that lasting peace can be built in the Middle East?

A: People don't commit suicide for nothing, they don't tie bombs to their body and blow themselves up for nothing. They don't fly a plane into a building for nothing. However misguided they may be, they believe they are doing something to advance their cause. We have to study the causes and we have to remove the causes. And one of the causes, of course, is the bitterness and anger that is to be found among the Palestinians especially, but also among most Muslims in this world over what is happening in Palestine. That is why you find that the people who are fighting are not coming from the countries that are poor, neglected or oppressed, they are coming from the rich countries, rich Muslim countries, people actually who are enjoying a good life. We must know why they do this to us. We must remove the causes and we must not allow international opinion to be totally ignored.

Q: But there's a reluctance in the US to talk about causes?

A: That is their view. But I insist that unless you remove the causes, you are going to have terrorism. In fact, there are more people inclined toward terrorism today than before September 11. This is because of the Israelis taking advantage of this fight against terrorism to terrorise the Palestinians and to defy world opinion, and to thumb their noses at the world. They don't care, they don't even care for America. If you saw the newspapers, the Israelis have called a dog George Bush,



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suggesting he doesn't know anything. That's the kind of arrogance that is creating a lot of bitterness among Muslims.

Q: Commentators are saying there has been an extraordinary change in US-Malaysian relations?

A: Yes, I think we can communicate better with the present government than we did with the last government. I have met President Bush, I have talked freely with him. Of course, he may not agree with some of my views, but at least he's prepared to listen. This is an improvement certainly.

Q: You have a vision of transforming Malaysia into a fully developed country by 2020. The financial crisis may have interrupted the process to some extent but it now looks as if Malaysia is still on track. Do you agree?

A: Yes, I think so. We have in the first years of the vision achieved above the target that we had set for ourselves. We wanted seven percent growth, but we were achieving 8.5 percent growth, sometimes nine percent growth so we were ahead. Of course, now there is a slack and growth is slower but the previous high growth, of course, created a higher average, despite the present downturn. We think in future, we will continue to grow, we'll be able to grow at seven percent average over the next 18 years or so before we reach 2020. So we think we are on track and we can succeed.

Q: What is your view of Asia's economic future? What are the key challenges Asia faces?

A: At one time when people were talking about this century becoming the Asian century, I debunked them. I don't believe in an Asian century. I believe in a world century. The world is getting closer and it doesn't pay to have Asia prosperous and the rest of the world not prosperous. I would like to see the whole world prosperous. We depend on Europe and America for our own prosperity. These are our markets. Asia has got its own dynamism and, although it has lost a little bit of its confidence, it will I think perform much better than other parts of the world, even America and Europe. However, Asia must be itself. It must not try to imitate others. The problem in Asia is that we are so taken with



what is coming out of the West that we try to adjust in a way that is damaging to our performance.

Q: What about the Asian way of doing business?

A: The Asian way of doing business is not bad. For example, what is wrong with the government working together with the private sector, the concept of Japan Incorporated? After all, when the private sector prospers, the government gets a chunk of that profit. In Malaysia, we deliberately said that we are going to be Malaysia Incorporated at a time when this term, Japan Incorporated, was regarded as something bad. We believe that it is the duty of the government to help the private sector. That's what we are elected for. And when the private sector performs, 30 to 35 percent of their profit belongs to the government. We are working as a shareholder. So why shouldn't we? The idea that if you work with the private sector, therefore they become your crony and this is wrong — well, all governments have cronies even among the people who are critical about cronyism. You know what happened to Enron, to Arthur Andersen. If the media wants to, you are going to dig up a lot of filth in the countries that are critical of us. My belief is that we should be allowed to do things in our way. In Malaysia, we are doing reforms, we are becoming a little bit more transparent perhaps, and we want to ensure that people's money is well-managed. But it doesn't mean that the government should be excluded from this process. We are an integral part of the economy and therefore we have a role to play.

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Q: You mentioned Japan Inc. Of course, we are all very anxious about Japan Inc. because Japan used to be a major engine of growth, a major source of foreign investment. But Japan has been languishing now for almost a decade. What is the problem with Japan?

A: Japan felt ashamed of itself because of the way it was doing business, of the good cooperation between the government and private sector. And it wants to do business according to the Western way. But their culture is different and any change must be gentle, not so very rapid. Because rapid change is destructive. The Japanese worker used to have life-time employment. Today, he's sacked. Japanese are different from other people. When sacked, other people will go to collect their dole, but the Japanese don't. They erect little tents in the city and they go around on bicycles, collecting tin cans and things like that. They don't go back to their family. They are ashamed. It's a different culture. A different culture needs a different system. Okay, they can change and adopt the Western system but the change must be gradual. It cannot be a sudden overnight change. You know, when the Treasury officials were arrested for doing what they have been doing all these years, the civil servants lost confidence. They dare not do anything. They are so worried that action might be taken against them that they cannot be helpful. I maintain that when you find that new things you are doing are not producing results, go back to the beginning and revise things and carry out the changes slowly.

Q: So instead of Japan trying to reinvent itself in accordance to a Western model, it should go back to the way it first started out?

A: Yes. What Japan did was something miraculous. From a defeated country, it pulled itself up by its bootstraps and built a great economy, the second biggest in the world. Surely what they were doing must have been right?

Q: Are you optimistic about a Japanese recovery in the next few years?

A: If they're prepared to look again. If they're prepared not to be so Westernised, I think they can.

Q: There is a lot of concern in Southeast Asia about the competitive challenge posed by China. China is a major magnet for foreign direct investment. China is a major competitor in terms of manufacturing and in almost every other field. How should Southeast Asia respond to this challenge? Is China an opportunity or a threat?

A: It can be both. For example, China is a threat to us in the sense that in certain areas they have the competitive advantage. When it comes to labour-intensive industries, they have 1.3 billion people, highly-skilled people. Yes, they will take away that kind of business. But we will have to think of other businesses, for example, in the IT area, in fields based on knowledge. But there are certain things, even if China tries, they cannot do. For example, they cannot produce palm oil. Their country is not suitable for it. There are many things that we can do which they cannot. The other thing is that, if you notice, when Japan started, it was really a cheap labour country. At that time, Japan was a very low-cost country. As Japan grew and prospered, labour costs went up and Japan had to set up factories in Malaysia and other countries in order to be competitive. The same thing will happen to China. But it will take longer because they have a much bigger population. In certain areas, China will soon become less and less competitive. There will be areas where China will not be as competitive as countries of Southeast Asia.

Q: Some commentators are calling for closer economic integration, for a Common Market for Southeast Asia. Do you see that as the answer?

A: We are countries at very different stages of development. It would be unfair to the least developed country to have to open up and compete with the more developed nations of Southeast Asia. Therefore, we should give ourselves some time and protect the weaker. That's what AFTA (ASEAN Free Trade Area) is all about. While the more advanced countries would open up, the less advanced countries would be given more time. We want to contribute, by investing, by training, by improving human resources. That way, they will be able to catch up. At a much later date, we can think about a common market. But it will take a long, long time.



Q: In your 20 years as Prime Minister, and in your many years on the public stage, you have stood for strength of will and pragmatism. What were the formative influences that contributed to this?

A: I inherited all these things from previous prime ministers. From the first prime minister, I learned how to handle race relations. I inherited pragmatism from the second prime minister. He always talked about being pragmatic, about doing things that you can do, not doing things that you wish to do. I learnt from the previous prime ministers. But the difference is that I put things across much more strongly than others. Being pragmatic is what Tun Abdul Razak is all about, that's what I learned from him. But I must admit that whereas they were more diplomatic, I am less diplomatic. If I feel something is right, and should be done, I will do it and I will say it. That is really the difference. We have had the same party governing this country since independence and the principles are the same. How do we work between the different races? All these ideas were put in place by my predecessors, so I owe them.

Q: We understand you learned to ride horses in your 50s. . .

A: In my 60s.

Q: . . . and are today an accomplished horseman. We understand you were in Antarctica to learn about the way the ecological system there works. What accounts for this passion for learning new things?

A: "I am curious, I like to know things. Even as a small boy, I remember there was a Chinese engineering shop near my house, and I used to stand at the window and look for hours at how they did things. It's of interest to me. Of course, I learned horse-riding at the age of 60 because I couldn't afford to do it earlier. I had always wanted to ride a horse. So when I could afford it, I began to ride. It's the only exercise I get. I have no time for exercise. I work all day and most of the night. So, weekends I ride. Riding is not like playing golf: it takes too much time playing golf. Riding is just one hour, two hours at the most. Once in a while I go to Argentina where I can ride, morning, evening, for days.

Q: What did you learn from Antarctica?

A: To satisfy my curiosity, I have always advocated that Antarctica should be 'a global common', that it should belong to the whole world, no-one should claim it. There's a great deal of research that can be done there that would be relevant to us. Being trained as a doctor, I have a scientific inclination. I am curious to find out things in different places. I found the trip interesting.

Q: Do you relax in any other ways?

A: Once in a while I will go for a walk, usually inspecting building sites. I enjoy walking to see all these people doing their work.

Q: What remaining items are there on your agenda for Malaysia and also for the world?

A: I don't have any great ambition. I am mortal. Anything that I can do that is good at any time I will do it. I have not set myself any goal. To me satisfaction comes from seeing the things that I set out to do materialising practically in front of my eyes. I don't seek to be remembered even. I don't care whether people think of me. I only think about what I have been able to do, about what I have done. That's the usefulness of having authority: to be able to do things. ■

Japan's loan agency to do more to ease banking crisis

By David Pilling and Andrew Gowers in Tokyo

Japan's government expects a big expansion this year in the role of the state-run loan collection agency in cleaning up the banking system's huge bad debt problem, Hakuo Yanagisawa, head of the Financial Services Agency, said in an interview.

Mr Yanagisawa expects at least Y1,000bn-Y2,000bn (\$7.8bn-\$15.7bn) - and conceivably five times that amount - of non-performing loans to be bought by the Resolution and Collection Corporation.

That would represent an important expansion of the agency's role. In the three years since it was set up, the RCC has bought loans with an estimated value of only about Y1,000bn, but it is now empowered to pay more realistic "market" prices for non-performing assets.

Mr Yanagisawa's comments will please many economists, especially in the US, who have been urging a more rapid work-out of Japan's banking crisis. The US government has repeatedly pressed Japan to emulate its solution of the Savings & Loan problem in the early 1990s, when

the Resolution Trust Corporation bought a large amount of bad loans before selling them rapidly on to the market.

Mr Yanagisawa's calculation was based on reports that Tokyo Mitsubishi, one of Japan's sounder banks, was planning to sell loans with a book value of Y500bn to the RCC this year.

"If they do that, other banks will have to follow suit or else markets will evaluate them severely," he said. "Tokyo Mitsubishi has Y15,000bn of outstanding loans, and major banks have Y300,000bn. That's 20 times, which would make Y10,000bn - a simple calculation. That amount is a bit exaggerated and I shouldn't be commenting on specific figures, but Y1,000bn-Y2,000bn is perhaps more in line."

Mr Yanagisawa said the RCC could expect to pay 8-10 per cent of book value for the loans, compared with about 4 per cent in its previous purchases.

"The RCC will need fresh funds, that's inevitable," he said.

The Deposit Insurance Corporation, which funds the RCC, could raise money by issuing government-guaranteed bonds to the market. Alternatively, the Bank of Japan could underwrite the bonds, he said.

Not all economists would welcome an accelerated workout of bad bank loans, officially estimated at about \$43bn, but considered much higher by many private-sector analysts.

Richard Koo, chief economist at the Nomura Research Institute, argues that the US S&L problem was far more manageable than Japan's crisis, which was precipitated by an unprecedented crash in land and share prices. When US banks were dangerously exposed to collapsed Latin American assets in the 1980s, he said, they sensibly proceeded cautiously.

Even at official estimates, Japan's bad loans are 8 per cent of gross domestic product, twice the size of the US S&L problem.

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