

Asian Affairs On Global Issues

Interview With Dr. Mahathir (Spring 2000): Prime Minister of Malaysia

THE TRUE SIGNIFICANCE OF THE FINANCIAL CRISIS OF 1998

Quite recently (June 2002), when asked why his policies work, Dr Mahathir replied; "Because I could pursue them for twenty years". There is, as always with the Prime Minister, an element of ambiguity in such a message, as well as a truth. In 1998, the Prime Minister of Malaysia was under relentless attacks from the media and the Washington elite. He had been too long in power, his country was riddled with cronyism and corruption. He had to let Malaysia evolve towards a true democracy, which in the eyes of the West was incarnated by Anwar Ibrahim, his former deputy. It was of course out of question for the President of the United States to receive such a tainted politician and even in Oxford, when Mahathir came to deliver a lecture, numerous students turned out to boo him. He had to go and no one was giving him a chance to survive the crisis by legitimate means.

But in May 2002, Mahathir was greeted in Washington as a precious politician, the right guy and a powerful ally in the war against terrorism. Never the last to seize a political asset, Mahathir, the Prime Minister of a predominantly Muslim country, was even received by the Pope. And if the American officials try to define what a moderate Muslim state is with good governance, they now point out to Malaysia as a role model.

As Mahathir changed his rhetoric and his political vision? Not at all. As ever, he is a critic of the many failings of the West towards the poor and the small countries. He remains convinced as ever that the financial architecture of the world is a disaster for a vast majority of people and that we need a change of mindset if we want to tackle endemic problems that gave rise to terrorism. And four years after the financial crisis that was supposed to bring his political career to an ignominious end, his decisions have been vindicated. That is why it is interesting to go back to what he thought about it.

The editor (June 2002)

Serge Berthier:

You have been attacked for what you said about the crisis in the past. Yet, today many experts and institutions analyzing what happened really and why it happened, are today supporting more or less what you said, and the crisis is today qualified as a side-effect of the globalization, rather than the result of reckless economic policies in Asia. Do you think that the crisis was, indeed, a side-effect of globalization?

Dr. Mahathir Mohamad:

In fact, there is still an unwillingness to recognize the true cost and significance of this crisis. As you know, the common view among the experts was that the Asian governments were not transparent, that they were corrupt, that they practiced cronyism capitalism rather than liberal capitalism. If all these things were true, then the crisis should have happened a long time ago because in Asia, as elsewhere, our governments have been called corrupt all the time and they have never been transparent. Yet, the Asian countries became prosperous and successful. The second thing that was said was that the Asian countries took a wrong step when they made their currency fully convertible. Since it has been there for a long time, if it were true, again the crisis would have struck earlier, but nothing happened until July 1997. Our currencies moved for a long time according to the demand. If you were not doing well, it was going down, and if you were doing well it was going up. By hedging, such variations could more or less be managed. So what was the problem? What happened in July 1997 is that the activities of the currency traders which did not exist before or were on an insignificant scale, pretending that the Asian economies were in bad shape, started to short-sell the Thai baht and then the other Asian currencies. To do so, they didn't really need to have any currency at all. The contract is to sell such or such amount of a specific currency at a later date. In the meantime, the traders were pushing the currency down so that they could get it the said day at a cheaper price. This activity resulted in a fall of the currencies of Asia. This is why, from the word go, I called the currency traders "crocks".

Serge Berthier:

The currency traders are part and parcel of the world financial system. Why do you blame them, rather than the regulatory system itself?

Dr. Mahathir Mohamad:

Until today, there is people blaming the IMF, I am not saying that the IMF policies were right, they only made things worse which is why we did not want to follow them, or the World Bank or anybody else but the currency traders. Now, why is the world so unwilling to identify the culprits? The world financial system in itself would not destabilize Asia so

much but for the currency traders who, in this crisis were looking after their own interest regardless of the consequences. They were short-selling, so they could make a profit at an enormous cost to others. Those currency traders do not look at people but at the screen of their computers. They don't see the people affected by the numbers on the screen. Million of people have been thrown on the streets. Their life have been affected, schools have closed, governments have been overthrown, but what does it mean to the currency traders? Nothing, they just were in front of their screen, using probably some software to tell them when to sale, when to buy. It is totally inhuman. To destroy about 250 billion dollars of wealth to make, at the most, I think, two or three billion is not acceptable. When you destroy so much wealth just to make that amount of money, what are you?

Serge Berthier:

A smart operator, maybe?

Dr. Mahathir Mohamad:

You see, for the Asian people, the loss was not a paper loss. Their purchasing power was reduced on average by about 50%. That was real. To buy some goods, they had to pay double the amount of local currency for the same thing. Another other things was the effect on the stock market. The value of the shares went down by 50%. The companies that had borrowed money backed up by the value of their assets were all of a sudden with loans that exceeded by far their worth, which, in the process, had dropped by 50% overnight. The devaluation of currencies and the plunging share prices will put any company, even the most successful, whether Asian or Western, into trouble and it is a fact that the attacks on the currencies and shares we have seen caused many good businesses to fail or lose money. Therefore, the banks that had extended loans to those companies were, for no fault of their own, of all a sudden in a very difficult position. They had to make margin calls that the companies could not honor, being short of funds. The currency traders did not care. Beyond their screens there was no one.

Serge Berthier:

This was not the first world economic crisis since the 1930s. Why are we unable to design a system, whatever system that will prevent that chain of events?

Dr. Mahathir Mohamad:

In the past, there was this feeling that people would behave in a reasonable way. In other words, the goodness of the people was taken for granted and the belief was that the market would behave in a

reasonable manner was absolute. But we have to admit that, among us, there are a large number of unreasonable and avaricious people. When currency traders see opportunities to make money for themselves they go for it, regardless of the effects elsewhere. It was in fact a big surprise for me to discover in 1997 that in the process they were undermining all the other traders but could care less.

Serge Berthier:

What do you mean?

Dr. Mahathir Mohamad:

Just in Asia, it is an accepted fact that about 500 billion dollars of purchasing power disappeared because of the currency crisis. It means that those who were producing real goods discovered at that time that their market had vanished. Their customers could not purchase anymore and for a while, there was no market anymore. And this, because of the currency traders!

Serge Berthier:

The common view at the time is that, whatever its excess, the market is never really wrong. Therefore the crisis had to have a "raison d'être" that could not be the market mechanism in itself.

Dr. Mahathir Mohamad:

Yes. I have seen many things, but in 1997 the biggest surprise of all was for me to discover how irrational can the market be. One can certainly worship the market but, nevertheless, when its goes completely wrong, governments have a responsibility to protect the people.

Serge Berthier:

To protect the people as you said you took a decision which damaged further your reputation in the circle of the international institutions. You introduced selective capital control which went against anything that was said at the time. I met you few weeks before the decision was made. You were quite tense and jokingly mentioned that you did not know anything about economics but could hardly do worse than the experts in view of what was happening. Can you tell us what went through your mind at the time?

Dr. Mahathir Mohamad:

Currency control as imposed by Malaysia was not generally understood by the international financial community although now we are getting some credit for it. Their criticisms were based more on their text-book models than on proper examination of what Malaysia did. To

understand the measures we took it is necessary to look at the root cause of the financial turmoil that undermined the economy of the country. The Malaysian economy and finances were very sound prior to the July 1997 attack on the Ringgit. The country had good reserves and very little foreign debt. There really was no reason why the currency should have become weak. But again the currency traders, as elsewhere, borrowed the Ringgit and sold it down repeatedly, thus devaluing it greatly. To make matters worse the foreign investors in the stock market began to dump their shares and to short-sell (1). Between the depreciation of the Ringgit and the severe fall in share prices, the companies and the banks rapidly deteriorated and were bankrupted or became nearly so. The government, too, faced revenue shortfalls as businesses were unable to make any profit and could pay no tax. At the time you saw me, the country's economy was on the verge of a complete collapse had the currency continued to depreciate and the share prices remained very low. To prevent this it was imperative for the government to regain control of the exchange rate of the Ringgit, which we did.

Serge Berthier:

It was certainly not as easy as you make it sound today

Dr. Mahathir Mohamad:

That is true. It is now easy to think that countries should at least try currency controls in order to solve the problem created by currency devaluation by unscrupulous traders. But deciding on such controls is not easy. Now we know that currency controls have been effective in stabilizing our economy and even the IMF has stopped criticizing us on that point, but in those days it was difficult to convince everybody that we needed to have currency controls. One member of the National Action Council brought up 32 reasons why currency controls would be bad for the country!

Serge Berthier:

What was the opinion of Anwar who was then deputy Prime Minister and Minister of Finance?

Dr. Mahathir Mohamad:

He did favored and implemented all the International Monetary Fund solutions for dealing with the country's deteriorating economy and finances during the turmoil. They were the wrong policies. But when the controls were being discussed - it took us six months of intense debate to come to the conclusion that we had to impose them - he did not argue against the controls, and when the decision was made he agreed with it.

Serge Berthier:

Yet, a few days before the decision was made public, the governor of the Central Bank resigned. Why?

Dr. Mahathir Mohamad:

The governor and his deputy tried to scuttle the decision by resigning. They thought it would harm the country, its economy, its relations with the rest of the world. You see, currency controls mean different things to different people. To the text-book economists, it means cutting the country off from every kind of financial links with the rest of the world, but actually it does not need like that. There is no way for Malaysia, and for other small countries to be totally independent economically. You must maintain strong economic links with the rest of the world, but you can also do that and stop a few currency traders to make money at the cost of your people losing their jobs. You must care for your people.

Serge Berthier:

Why do you think nobody cared for the Malaysians?

Dr. Mahathir Mohamad:

In the unfortunate situation we were facing, it is a fact that the American government saw and still see much to gain. After all, the currency traders are by and large citizens of United States. The country has the money to engage in that sort of activity. Another contributing factor to the mood was that the United States was then experiencing the highest rate of economic growth of the decade, partly because of the influx of money, on borrowed money coming from other countries. The stock market was going up and people kept buying, pushing up share prices, not because of the real value of the companies, but because other people were buying too, while at the same time, Thailand was entering recession.

Serge Berthier:

One of the criticisms was that Asia had in 1997 a real estate bubble which was bound to collapse and trigger a financial panic. One would think that after the financial debacle we saw, people would be more cautious. Currency trading is now more subdued. Short-selling is no longer the fashion, but what about the high-tech fever? Don't you think that the hot money that was used to finance the currency trading is now used to finance the dot.com fever and that we risk going from one crisis to the next?

Dr. Mahathir Mohamad:

There is a similarity. When you see in Hong Kong a company buying Cable & Wireless with practically nothing, it makes you wonder what the crisis was about (2). Eventually, things like that have to collapse. In the high-tech sector, we thought it will happen one day but not so soon. I didn't expect that the Microsoft case would change the mood. But yes, I think there is a connection between the currency trading activities and the dot.com fever. See how Soros and others got into trouble. They went from wrong bets in currency trading to technology stocks which, too, went down. Now they have to give some answers to their shareholders (3).

Serge Berthier:

I would like to come back to my original question. If the crisis is a side effect of globalization, and currency trading a manifestation of globalization, does that mean that globalization is a wrong concept?

Dr. Mahathir Mohamad:

One thing is for sure. People now are questioning globalization. Of course, globalization is inevitable and it must happen, but today people are questioning its meaning and whether it should be rejected as it is or modified in some way to make it work. That thinking is now spreading in all circles, while, when the crisis struck, it was unthinkable to question it. The reason is that it is very clear that what happened with the currencies was a manifestation of a borderless world where currencies go in and out without control. In Malaysia, when we saw it clearly, we were still able to close the door but what became obvious is that others did not have the means anymore to do so, that is why, today people realize that there is a need for a rethink of the regulations.

Serge Berthier:

The so-called new financial architecture of a global world. Do you think it will amount to something really different from what we know?

Dr. Mahathir Mohamad:

I think there are today sufficient voices raised against a wild globalization to bring changes. More and more people, including the NGOs, for different reasons, are thinking along those lines. Eventually the meaning of globalization will have to be revised, but there is still a big problem in particular in the media. Globalization is for the time being considered good. You can't discuss it and be considered right. It is like democracy. If you say anything about democracy, that means that you are bad because you should not discuss what democracy is supposed to be. At one time, socialism was the greatest thing. It was going to make everybody good. Today, the thinking is otherwise but how do we know that today's liberal democracy will not be criticized in a few year's time for all the damage it has done?

Serge Berthier:

The liberal democrats don't think that they have done any damage at all. What damage have you in mind?

Dr. Mahathir Mohamad:

To take one, the collapse of morality. To a point, we have witnessed the disappearance of morality. Everything is done for money.

Serge Berthier:

To what do you attribute such collapse?

Dr. Mahathir Mohamad:

To the current democracy. People should think of the result, not the means. Small people matter even less than in the past. Today, companies are becoming bigger and bigger. Suppose that big banks come to Malaysia having the same right that the small local banks. They can lose money for a while, it does not matter because there are making money elsewhere, but the local banks cannot afford that sort of game. They will lose their business. So in a way, it is the end of those banks because they will just give up and sale. Their price will be low because their shares would be down in view of their poor prospect. So the game of the market is very good for the big and powerful, but for the small, it is not good at all.

Serge Berthier:

You are saying that nothing has changed in spite of all the declarations that we are all part of a better world. There is still that great divide between the rich and the poor, the weak and the powerful. Other people, such as Mike Moore, who heads the WTO, claim it is not so. Poverty is going down and so we progress on the right path.

Dr. Mahathir Mohamad:

The difference of view depends according to who you are and who is in charge. Today the big companies are in charge. You remember the time when Rockefeller monopolized the oil business in the United States. He was forced by the US government to breakdown his business. Although you have today the Microsoft case, the United States government is also starting to be powerless. The rich companies are so huge that you cannot see the end of the hands. There was a time when the slogan was 'small is beautiful', now it is "big is beautiful". These are fashions and if you analyze them you are going to find that all these ideas about globalization, liberalization, borderless world, the mega-mergers and efficiency are just concepts brought by people from the West who all benefit from them. Whether it benefits others or not is beside the point but it is true that it benefits them. If you challenge the concept, then you are bad.

Serge Berthier:

What you mean is that the conglomerates are no longer under the control of their own government. To become global means for them to be beyond the reach of any government, a bit like the currency traders you mention earlier.

Dr. Mahathir Mohamad:

A good comparison of where we are is what was called the banana republics. The only source of revenue of the governments of those small islands was from the banana trade. The manager of the banana plantations, a proxy of the company, could hold the government to ransom and even ensure that his nominee becomes the President. That is where we are on a different scale. Small countries faced with huge companies which contribute all the revenue of the budget can hardly challenge them. So there is no more independence. You don't need guns anymore to colonize. Small and medium-size countries will lose their independence.

Serge Berthier:

You make it sound as if it is inevitable, as if it is done.

Dr. Mahathir Mohamad:

The naked truth is that the ability of the small and medium sized countries to move is limited because a lot of them owe money to the international banks which actually are under the control of the big companies. They also owe money to the rich countries loans and therefore their freedom to act is limited by their obligations to those creditors.

Serge Berthier:

But are the big countries really holding to ransom as you say the small and the weak as crudely as you say?

Dr. Mahathir Mohamad:

The big countries have no compassion of making use of their leverage. Say that you want to stand for a specific international civil servant in the United Nations that they don't want. They have no qualm to tell you: "no, you vote for that one". There is really no more freedom for everybody. This is where we are now (4).

Serge Berthier:

The crisis has also shown that the big countries do not have as much power as one believes since they admitted having no control of the situation, and then you had the Seattle debacle where 40 000 people derailed what was considered a foregone conclusion. Don't you think that the balance is shifting?

Dr. Mahathir Mohamad:

Small countries will take a long time to change because most of them are under obligations. There are in debt and so they are not free, but I agree there is now some resistance and there are the NGOs which are not under obligations although some are set up by some countries and work in their favour. But overall, I would say that we have a very unfortunate and very bleak future.

Serge Berthier:

That's a surprising statement coming from you. Why so much pessimism when your country is the living proof that it is quite possible to progress and come out of poverty at quite a fast pace provided the right policies are in place.

Dr. Mahathir Mohamad:

We are at a stage where under certain circumstances people consider they can interfere with the internal affairs of another country. The human rights situation is a good example of the problem. One can say, bring down the government because there is violation of human rights in such or such country. One can even urge groups within a country to do so, telling them we will help you bring down the government because it is a bad one and you will be a better one. Of course, it means that the said group is then obliged to them. The whole thing is just another way of colonizing the country.

Serge Berthier:

Certainly, but again this is just as it was before. Governments have always toppled other governments, they have always interfered with their neighbours, and they always have enemies and friends. It is after all the game of power and ambition. There is nothing new, except the means.

Dr. Mahathir Mohamad:

Exactly! It was the game, but it was an outright game. People were just saying in the past: "I want to conquer your country, you are my enemy, I bring my forces". Today, it is not like that. They say: "we are good people and we do good things. We want human rights respected by everybody." In the process they take away our rights. It is the same discourse as in the past, but the names and the weapon have changed, but the aim is the same. The weapon now is money.

Serge Berthier:

Nowadays, can't we talk of cooperation rather than confrontation?

Dr. Mahathir Mohamad:

The idea of domination is prevalent in history and even more so today than before. Before the world was divided by the Pope, between the Spanish and the Portuguese. Today, one group of countries wants to dominate the world and we are not allowed to challenge that vision. That is not what I call cooperation.

Serge Berthier:

Does Europe share that ideal with the United States?

Dr. Mahathir Mohamad:

Lastly we got that impression that Europe tends to side with United States in that vision, not as violently as the United States, and there are differences between the European countries, some are more, some

are less supportive of that view, but when it comes to the crunch, yes, the European always sides with the US.

Serge Berthier:

Elections have been held recently in Malaysia and a number of ministers from your party lost their seats. It never happened in the past. Many commentators believe you have lost the confidence of the people because of your stand about Anwar Ibrahim and because of the way you handle the crisis. What is your opinion?

Dr. Mahathir Mohamad:

Yes, we lost some support but it had to be looked at in perspective (5). First, we had this unfortunate event that took place when Anwar was arrested. During the election campaign you had everywhere the poster showing my former deputy with a black eye. Of course, my opponents accused me as if I had ordered it. People were confused. They did not know what to think. It was very easy to put us in a bad light. But that picture cannot be used for ever. They won't have it for the next election. They will have to find another way to rally the people against UMNO. The second thing, and it is paradoxical, is that we were in fact too successful in our attempt to shield our people from the devastating consequences of the crisis. Unlike the Indonesians, the Malaysians did not suffer much. We avoided unemployment and massive layoffs. We kept the economy turning reasonably well and therefore in their daily life, for our people it was as if nothing happened really. So the people did not understand the crisis. For them, it was not as real as it was in Indonesia or Thailand. So during the campaign, it was not a point you could make. But, yes, we lost ground and some ministers of state got voted out because they did not perform well. They were not good enough and so deserved it. Next time, they will have to improve if they want to succeed again.

Serge Berthier:

To some, what you say will sound as over-confidence. After all, never again you lost so many ground. The beginning of the end of a government always starts with a trickle.

Dr. Mahathir Mohamad:

I have been in power for nineteen years and for the media, it is wrong. When I got elected, the media was already saying that I would not last. You have to get used to that sort of criticism and keep your focus on the realities. To govern, you need a majority. You do not need 75% of the chamber to support you and you cannot expect to have 75% of the people supporting you all the time. That's what we had and do not have anymore for the time being. Yet we have a large majority. It is

true that there is one state where UMNO has never been elected (in Kelantan). For some reason, it just can't be, no matter what. The opposition is always elected. And this time, we lost another state. That makes it currently two states of the federation. Of course my opponents want to govern. It is a legitimate goal for a politician but for that he needs the people, a majority of the people. I know what the media writes about me so let me tell you a story. At the beginning of the year, an American magazine asks me if they could follow me around the country. It was when I went on my own, driving my car, going in the shops, meeting people without any protocol around me. I wonder how many Prime Ministers and Presidents can travel without bodyguards nowadays. But I did it. I wanted to feel the pulse of the countryside after all that was said about me. Everywhere I met people that came to see me, asking to take pictures with their children, talking to me about their problems. There were always too many people but I did not want to disappoint them. But do you know what the journalists that were following me everywhere wrote? That the Malaysian people were scared of me! How can you write this? Well, you have to live with the media but the reality is different. The truth is that we did not communicate very well. Yes, there were among us people who were over-confident, that is why they did not campaign very efficiently. They took for granted that they would get elected because of who they were. This is a lesson for UMNO. It is not because you have done what you did that people will remember your work for ever. After all, for a majority of Malaysian, the new generation, Malaysia has always been as they see it today. They have never known Malaysia with nothing as a backward place. The new generation feels what they have was always there. They don't understand the work it meant and what you needed to do to get there. That needs explaining. We were not good at explaining what we did and why we did it. So those who failed deserved it. But look what is already happening. We had some by-elections since then where we focused our mind and changed our ways. Everywhere we did some explaining we have actually increased our majority and our opponents have lost. The lesson is that you can never be complacent. That is what a crisis will teach you.

Notes:

1.- To go short in something is to put yourself in a position to gain if its price falls. To sale short, one is betting that when he will purchase a stock or a currency, the price will have fallen between the sale and the purchase. To go long is the other way, to expect that the price will rise between the purchase and the sale.

One of the problems of the Kuala-Lumpur stock market was that a Singapore-operated Central Limit Order Book (or CLOB) was trading in Malaysia shares without the approval of the Kuala-Lumpur Stock Exchange (KLSE) or the Malaysian government. It was done by registering all shares held by thousands of investors under the name of a few nominee companies trading through CLOB. The nominee companies were thus able to lend the shares to speculators who short-sell them repeatedly. Through CLOB the composite index of the KLSE went down from 1200 to 260 points.

2.- Pacific Century CyberWorks (PCCW) is a one-year old company formed as a result of a buyout and used for a backdoor listing. The company was formerly Tricom Holdings, a telecommunications products manufacturer with a history back to 1982 and which listed in Hong Kong in 1994. In 1997, Star Telecom (now China Online) bought a 74% stake in the company from China Strategic, its major shareholder, and Chambord Investment. In 1999, Richard Li, 33, the second son of HK property tycoon Li Ka-shing who controls Cheung Kong and Hutchison, injected a few property development projects in exchange for a controlling stake. For the year ending December 31, 1999, revenue decreased from HK\$285 million to \$152 million. Profit for the year amounted to \$346.8 million compared to a loss of \$62 million (13.4 cents per share). No final dividend was declared (1998: nil). The profit was a result of declaring unrealized stock gains worth HK\$537.17 million. The company has been able to raise more than 30 billion US dollars to finance its acquisition of Cable and Wireless HK, (ex Hong Kong Telecom) in spite of a lack of real tangible income and assets.

3.- George Soros is an Hungarian refugee turned American financier. In 1969, he founded the Quantum Fund and by 1992 he was a billionaire known as the greatest investor. He made his most famous business coup in August 1990. Borrowing about 15 billion worth of British pound he then short-sale the currency on the assumption that the government would have no choice but to devalue. He then engineered a run on the currency and won his bet. According to Soros, the Quantum Fund speculated against the Thai baht, but not against the Malaysian Ringgit.

4.- Malaysia had proposed one of its general to head the United Nations force in East Timor but the proposal was rejected by the Australians and the Americans.

5.- The 14 party National Front coalition won 75 per cent of the seats but Mahathir's party, the United Malays National Organization, which is at the core of the coalition had a rather poor performance.

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