

CNBC Transcript: Dr. Mahathir Bin Mohamad, Prime Minister of Malaysia

CNBC Markets

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Below is the transcript of a First On CNBC interview with Prime Minister of Malaysia Mahathir Mohamad. The interview was first broadcast on CNBC's Squawk Box Asia on 12 November 2018.

All references must be sourced to a "CNBC Interview".

Interviewed by CNBC's Sri Jegarajah.

Sri Jegarajah(Sri): Prime Minister, can we start with the economy? You targeting a wider fiscal deficit, higher debt, and slower growth on the horizon as well. How worried are you about a credit rating downgrade against that backdrop?

Mahathir Bin Mohamad (Dr.Mahathir): We're worried of course if we're downgraded, but the rating agencies should understand that when you are open and you reveal all the truth about the situation in the country, they should take that into consideration, they should also think what we're doing in order to improve the situation. I mean listening to the previous government which hid a lot of things and rating on that basis is, I think, wrong. Because they are not telling the truth and you are giving the rating based on untruth. But here we're doing something very positive, the economy and finances are recovering, it's much less now that it was when we took over and we have only six months, so that should be taken into considerations by the rating agencies.

Sri: Rating agencies do say that Malaysia is too dependent on oil revenues, and not enough has been done in terms of significant revenue raising policies? How would you respond to that, Prime Minister?

Dr. Mahathir: We're not dependent on oil revenues. You see, we're a small producer of oil, 600K barrels a day, nothing compared to countries like Saudi which is entirely dependent upon oil revenue. We have other sources of revenue, we produce a lot of palm oil which used to fetch good prices. 82% of our exports is made up of manufactured goods, so how can you say we're dependent upon oil revenue. It's not.

Sri: The issue seems to be, Prime minister, GST - zero-rated. That was one of the actions your administration took when you were elected. The issue seems to be revenue generation and filling that shortfall. What's been done to fill that GST shortfall?

Dr. Mahathir: We have introduced SST: sales and services tax (Sri: is that enough?) It's enough, it's more than enough. Actually the figure given about the revenue from GST was inflated, money that should be returned to the tax payers were included as revenue, put into the consolidated account, that is wrong. Actually it's not 40 billion, it's about 25 billion. And from that SST, we can get 25 billion, so it's not affecting us at all.

Sri: How confident are you that fiscal deficit comes down to 3-percent of GDP by 2020? That's your target. What's been done to achieve this? And how confident are you that this target will be met?

Dr. Mahathir: If you take the real figures during the previous regime, you will find that the figure was extremely high. Now it's 3.7% and I think we can bring it down further. But of course the fact is that the previous government borrowed huge sums of money, we have to pay interest on that, we have to pay the money that we borrowed and that of course affects our ability to attend to other issues. We're not... we're still able to pay salaries and things like that, but we have to cut back on development. That is all.

Sri: According to Bank Negara's figures and this is a figure that I've read in the Malaysian press. Total public debt stands in the region of 983.6 billion ringgit as of the second quarter. That is, in the region of almost 71% of annual GDP? What are your reflections on that figure?

Dr. Mahathir: Well, it was 1.2 ... 1.3 trillion before. So if it is 900 billion now, it is already a good reduction of some 300 billion ringgit. So we think the situation has improved. But one has to take into consideration that the amount of money that was borrowed before. If you don't pay, all you can ... other ways is to hide. We're not hiding. We're telling what's the truth about the borrowing.

Sri: What that is the extend of the inherited debt, if I can put it that way, the liabilities that were inherited by your administration by the Najib-era administration?

Dr. Mahathir: In terms of the absolute number, it's about 1.2 trillion. That's a big number.

Sri: You do believe that the ratings agencies have taken account of this number or they should take account of this number?

Dr. Mahathir: The previous regime mentioned a figure of about 600 billion or 700 billion. And rating agencies apparently accepted their figures. When we took over the government, we found that the amount of money borrowed was much more than that. It was 1.2 trillion dollars, so the figure of course is quite different, the ratings should be different.

Sri: And on that basis, do you believe that you can, sovereign Malaysia, can avoid downgrade, because they recognize or should recognize the extent of the inherited debt?

Dr. Mahathir: They should recognize that, inherited debt. They should also recognize the fact that we have been able to reduce the amount. Everybody knows that we're not going ahead with huge projects like the high-speed rail and also the East coast Railway.

Sri: And you can avoid the downgrade? Malaysia can avoid the downgrade you believe?

Dr. Mahathir: We can avoid downgrade if the rating agencies take into consideration the success of our ability to reduce the amount of loans from 1.2 trillion to about 900 billion.

Sri: Prime minister, how high are the downside risks to Malaysia economy in 2019 considering the deepening trade conflict?

Dr. Mahathir: If you are going to xxx a figure, that I can't do. What I can say if the figure now is not as high as it was before we took over.

Sri: Do you think that the downside risks are higher in 2019 because of the trade conflict? Malaysia seems to be very exposed given the export dependency - almost 70% of the GDP, if I am not mistaken.

Dr. Mahathir: Yes we are in a way very exposed because we're a trading nation. Or economy is based on what we export and what we import; therefore whatever happens to the markets affect us. But it has not so far affected us to the point where we cannot manage the government, we can still keep up the wages and all that, we can pay. Really development expenditure is reduced.

Sri: What's the risk of that Malaysian economic growth falls below 4.5% in 2019?

Dr. Mahathir: That's not much of a risk. I think we will do better than that.

Sri: External conditions are very challenging right now.

Dr. Mahathir: Yes, it is so, but we have been very resilient. We have faced many crises before, and we have learnt from our experience of handling crisis.

Sri: Are you worried about currency depreciation? Given the fact that US Dollars remains quite strong. U.S. Fed is committed to gradual pace of tightening.

Dr. Mahathir: Unless there is deliberate trade in currencies that tends to fiddle with the ratings, I think our currency will not depreciate that much.

Sri: Do you think the trade conflict between the U.S. and China which seems to be really at the heart of some rather bleak forecasts from the IMF, for 2019 beyond, do you think that trade conflict is going to be prolonged in nature? Are we going to see an economic cold war or even, and the situation that lasts years and not months before it is resolved?

Dr. Mahathir: It all depends on whether Mr. Trump remains the President of the United States. As you can see from the mid-terms elections, he has not fared so well. The chances of him getting a second term is a bit, oh well, bleak at the moment. If Trump is not there, I think the other members of the U.S. government, whether they be republican or Democrats, they will not continue with this very disruptive trade war.

Sri: So it is your belief, Prime Minister, that President Trump will not be elected, re-elected in 2020?

Dr. Mahathir: I will be surprised if he's re-elected after what his poor showing in the midterm election. And the comments that we hear among Americans as to his performance. He's very fond of dismissing people. He is accused of getting Russian help during the election. In order to stop people from investigating, he has sacked people. That kind of thing doesn't bear a good future for him.

Sri: In the near term, how confident are you that there will be any kind of breakthrough or any kind of compromise on this trade conflict between the U.S. and China when Mr. Xi and President Trump meet as expected on the sidelines of the G20 summit at the Buenos Aires?

Dr. Mahathir: With Trump, you can't predict anything. We don't know how he will react. We never expected him to meet the President of North Korea, but then he met. He was patting his back, he was so friendly yet at one time he says he didn't want to meet. So with Trump, you can't predict.

Sri: Oil prices are currently trading in the low 70s - low 70 dollars a barrel. That cannot be good for Malaysia from a revenue sustainability point of view.

Dr. Mahathir: Better than 40 dollars. It was 40 dollars at one time and everybody suffered. But now at 70 dollars we are much better off than at 40 dollars. There is a possibility that oil prices will go up.

Sri: And you don't expect oil prices remain depressed in 2019 given the global headwinds, given the downside risks to the global economy, the trade war, the effect that's going to have on global demand?

Dr. Mahathir: When oil price hit 80 dollar, there was talks about 100 dollar per barrel price. So people are really unable to predict things. For me to predict the future is something that is beyond me.

Sri: What's OPEC's role in this? Should they take actions to stabilize the price of oil and cut production when they meet in December?

Dr. Mahathir: OPEC is not effective. They are always at loggerheads with each other, so they cannot make decision. What is important the production of shale oil from America.

Sri: Why do you believe that's important? Is it because increasingly the U.S. is being perceived as the swing producer, not Saudi?

Dr. Mahathir: The only problem with U.S. is the environment and the people who are concerned about the pollution caused by shale ... extracting oil from shale.

Sri: And if we can bring the conversation about oil back to Malaysia. Establishing a sovereign wealth fund, I am not talking about a political slush fund. What's been done to create a fund for Malaysia's oil wealth that provides for the longer-term security and benefit of the nation, and is the Norwegian model, Prime Minister, an appropriate one for Malaysia?

Dr. Mahathir: The Malaysia oil business, although it's 100% owned by the government, is not managed like other sovereign oil companies. In other cases, they were only interested in collecting royalties. We have gone in the, all the the different aspects of the oil industry. We're producing oil, we are also consuming oil. We are very big in gas production. So I think Malaysia will not feel as severely as other people because we're not just a producer, collecting ... we are not just depending on the collection of royalty. We are producing oil in other countries, not only in Malaysia. And there are prospects of our producing gas in

Canada for example that we will give us which will give us very good return.

Sri: That is one topic we will end here, that is the trade, the economy etc. I will move to the domestic political scene. Prime Minister, let's talk about the transition. And let me start by asking you how long you are going to be Prime Minister of Malaysia for?

Dr. Mahathir: Well, I have promised that I will step down after 2 years or so. And I will keep my promise. But of course lots of things can be done in two years; but lots more need to be done. So it's up to my successor to deal with it. But as far as I can see, 6 months after taking over, we have cleaned up the government; We have already improved the financial situations. So it looks like we can improve further, we're working like ... getting Japanese Yen loan and things like that. This will contribute to our efforts to reduce the amount of loans that we have to bear.

Sri: Would you consider stepping down earlier than 2020?

Dr. Mahathir: If the people want me to step down earlier, I have no problem.

Sri: What would have to change for you to consider stepping down before 2020, Prime Minister?

Dr. Mahathir: If people were to tell me that I'm not performing, I will step down. No problem.

Sri: Who, in your opinion, is worthy potential successor to yourself? Is it Mr. Anwar? And another name has been mentioned, and that is Azmin Ali.

Dr. Mahathir: Well, anybody can be. But the promise is that if I step down or when I step down. Anwar will succeed me. That was a promise, that was undertaking of the party.

Sri: And you've said if the people want Anwar Ibrahim as prime minister, they are entitled to have him. Does that imply that there will be a popular vote? Or what exactly would be the process under the Malaysia constitution that will decide the next Prime Minister, your successor?

Dr. Mahathir: We still believe in democracy and the rights of the people to choose their leader, their government.

Sri: So there wouldn't be some popular vote, would there?

Dr. Mahathir: If they want do, they can do that. But what happens is that as a party, as a coalition, we promise that, but it doesn't bind the people.

Sri: Does it bother you that there is something of a leadership struggle emerging within PKR? the largest party in Pakatan Harapan coalition?

Dr. Mahathir: There is a struggle at the lower level, at the second level. As far as their leader is concerned, there is no dispute.

Sri: But this doesn't point towards divided government, in anyway?

Dr. Mahathir: Well, we will have to see. I am not good at predicting the future.

Sri: Well, let's talk about reforming institutions. And let's talk about the legacy of 1MDB, and closure. It is alleged that Malaysia financier Jho Low masterminded the 1MDB fraud. Just bring us up to speed, prime minister with where you believe he is, wh is it taking such a long time to locate him? And for him to answer these claims in the court of law in Malaysia?

Dr. Mahathir: We suspect that he's in China, but China has denied. So we are in no position to prove that the denial is without basis, so we have to accept that. He is a man with many passports, he can move around, he has shown that he can move around quite easily in the past, maybe he's hiding somewhere.

Sri: It's been alleged that Jho Low helped engineer some of China infrastructure deals that your government froze, the China infrastructure deals under the Najib era. Is there any truth to that?

Dr. Mahathir: I think there is some truth, because he has tremendous influence over the prime minister. You know this new book that has come out (Sri: Billion Dollar Whale) There are many...many stories about how he managed to influence decision simply by calling up the prime minister.

Sri: Can Jho Low be guaranteed a fair trial if he comes back to Malaysia?

Dr Mahathir: There will be a fair trial. I must admit that in the previous regime there is an attempt to fiddle with the judiciary, but we want a fair judiciary. And we hope that there will not be bias.

Sri: Can you say the same for the former prime minister? Can he be guaranteed a fair trial?

Dr. Mahathir: Yes, we will get a fair trial.

Sri: Ultimately, is it your intention to see him and those who have aided and betted the alleged fraud at 1MDB sentenced and serving jail time? Is that what Malaysia needs to achieve real closure on this story?

Dr. Mahathir: We believe in the rule of law. Whatever the law says, we accept. If he has to be tried, he should be tried, if he's charged and he's found guilty, then the rule of law will apply. If he's found innocent, then the rule of law will also apply.

Sri: Has any date been set for Najib's trial?

Dr. Mahathir: Judge fixed the date in February next year.

Sri: Will you allow international observers?

Dr. Mahathir: Yes, Yes. Anybody can come and see. We are open.

Sri: And if you can talk about Goldman Sachs. Revelations are emerging now about the involvement of Goldman, the underwriting of 1MDB bonds, former Goldman partner, Tim Leissner, who pledged guilty to conspiring to laud the money etc. Is it safe to say that Goldman Sachs will never be permitted to do business in Malaysia again? Are they persona non grata in your country?

Dr. Mahathir: We are watching. Of course, there is evidence that Goldman Sachs has done things which were wrong. They shouldn't have done that, but we want to see the results of all these investigations and the actions taken against Leissner for example.

Sri: What does this tell you about compliance control at Goldman Sachs?

Dr. M: It doesn't work very well.

Sri: And Malaysia seeking restitution from Goldman as well? How much could we be talking about, Prime Minister?

Dr. Mahathir: I don't know the exact amount. But obviously we have been cheated through the compliance by Goldman Sachs people.

Sri: Institutional reform, do you admit that corruption existed during your administration.

Dr. Mahathir: Corruption is found in every country at any period of time, but it is the extent that is the important.

Sri: But do you admit that it happened during your watch?

Dr. Mahathir: There was corruption I believe, but what we can detect we detect. But the kind of corruption you see during Najib's team was not seen during my term.

Sri: So what guarantee can you give Malaysia public that you can start the eradication of abuse of power that happened in prior governments, your own government, and former Prime Minister Najib's government? What guarantees can you give, here and now, to the Malaysia people that you have started the process to eradicate corruption?

Dr. Mahathir: We have reduced the power of PM for example, he can serve only two terms. And most of the decision-making is now transferred to parliament.

Sri: How long do you think you have to go before you can truly say that you have meaningfully reformed the institutions in Malaysia?

Dr. Mahathir: I think even now people don't talk anymore about corruption in Malaysia. There can be corruption but certainly on the scale that is so obvious to the public.

Sri: Prime Minister let's move on to foreign relations. One of the first things that you did when you were elected was review the Najib-era Chinese infrastructure deals. You visited Beijing this year too. Have those deals been restructured on more favorable terms or are they completely abandoned now?

Dr. Mahathir: It does not reflect on China, it reflects on Najib. It is Najib who decided to have the railway for example. It was he who decided to borrow \$55bn and all that. So we are blaming Najib. Our relationship with China is normal, like before. But it is getting at Najib. In the process of course it may involve some contracts entered into with Chinese companies.

Sri: But are those deals being restructured? Are they more transparent and are they more economically viable? And have they been restructured on more economically favorable terms?

Dr. Mahathir: On the East Coast Railway for example we have stopped the work on this because they have overpaid the contractor because of the terms of the previous contract was that they paid equity to the timetable without regard for the work done. So that has been stopped, so we are now considering deferment or some other solution to the railway construction, because we feel that at this moment we cannot afford.

Sri: How would you describe economic relations with China?

Dr. Mahathir: Very good. China is still our best and biggest trading partner

Sri: Are you pivoting more towards Japan as the preferred provider of FDI?

Dr. Mahathir: We are friendly with all countries in the world. Any country that is beneficial for us in terms of being a good market for us, we will do our best to be friendly with them. The fact that we are friendly with Japan does not reflect on our friendliness with China.

Sri: Malaysia has been named one of the potential beneficiaries of the trade conflict and by that I mean companies doing business in China - they could be Chinese companies - are looking at relocating their supply chain to South East Asia because of the trade conflict. Are you seeing any evidence of that transfer happening towards Malaysia?

Dr. Mahathir: Nothing is yet happening but that is one of the possibilities. We are hoping that if the people want to produce things to sell to the U.S., it should be better to invest in Malaysia and other countries than in China, at this moment.

Sri: And this recent tussle that occurred between your country and China and any bad blood that occurred during that renegotiation process, that's not jeopardizing any of that inflow?

Dr. Mahathir: There's no bad blood between us and China. I was there, I was received very well by them, I had the full series of negotiations and they were very forthright, very friendly.

Sri: Why is it taking Malaysia so long, Prime Minister, to ratify the CPTPP?

Dr. Mahathir: Because it may affect our domestic business and politics.

Sri: So in other words taking down the trade barriers, that may create inequalities of wealth and that's what you're worried about? Can you just elaborate on why the process is taking so long?

Dr. Mahathir: It is a negotiation of countries with unequal status of development. Obviously when you bring down borders, the people with the goods to cross the borders will benefit the most. The richer countries can then enter into the poorer countries. The poorer countries don't have much to sell except probably raw materials. And that too is controlled by market forces. For example, tin. The tin market has been - not manipulated - has been in London all this while. I mean we have no say until now. It is the country with the biggest amount of things to export who will benefit most from bringing down borders. But what do we get in return, that is the question that we must ask ourselves.

Sri: Do you simply need more time to sell this proposition to the Malaysian public?

Dr. Mahathir: There are lots of protests in the country about entering into this agreement because many people feel that it's not beneficial for the country.

Sri: And where does Malaysia stand in terms of the negotiations with another very major trade deal and that is the Regional Comprehensive Economic Partnership?

Dr. Mahathir: Well we are still studying it to see whether there are any negative things about that trade negotiation

Sri: And is it potentially the same set of issues that is delaying the ratification of CPTPP that are delaying RCEP as well? You're worried about inequality?

Dr. Mahathir: Malaysia is a developing country. In addition to that we have a multi-racial population and the multiracial population do not have equal distribution in terms of wealth. So we need to avoid these disparities in our country and the racial problem. Whenever we enter into negotiations with other countries, because other countries will be thinking only about trade, we have to think about our domestic politics.

Sri: Racial politics has been an incredibly divisive issue for your country. How can you ever begin that process of ... how can I describe this diplomatically ... harmonizing or reforming maybe I should say ... race-based politics in Malaysia?

Dr. Mahathir: That's what some people say. But we have managed racial politics much better than other countries. In many countries when they became independent, they expelled foreigners. Indians were expelled from Myanmar, from Fiji, from Tanganyika and other places. We, on the other hand, allowed people of foreign origin to stay in our country, we give them scholarships, they are able to retain their language, to have schools, etc. So we have managed our racial relations much better than other countries to the point where Malaysia is very stable. And only once was there any racial complaint.

Sri: But the Bumiputera policy, you are open to reforming it? It's going to be a very long process but you are open to reforming it?

Dr. Mahathir: I mean you have to understand what the Bumiputera policy is all about. In even a single ethnic country, if there is a huge disparity between rich and poor, there will be revolution, there will be civil war. But in Malaysia that can be amplified by racial differences. So we have to be very careful about this. That we have managed to keep the country stable and peaceful is something that people should appreciate because normally in a multi-racial country there will be fights. Even a multi-religious country like Northern Ireland you see how long it took them? And of course in the Arab countries you see a lot of things like that.

Sri: It's a very fine balance. ASEAN. What's your message, Prime Minister, to this 33rd ASEAN Summit?

Dr. Mahathir: ASEAN has tremendous potential. But we are countries of people with different ethnic and racial groups. And our economic performance is not at the same level. Europe I think is much more able to overcome these differences in economic advancement. But ASEAN -- you see great disparities between the members. We need I think for example to ensure that whatever we do, we do observe the development of the least developed countries in the ASEAN region. But what is important is that ASEAN is a very big entity. It has more than 600 million people. 600 million people, even if they are poor they form a good market. We need to look inside our markets and to find ways and means where we can help the less-developed country catch up with those.

Sri: Does it bother you that President Trump won't be attending this ASEAN summit?

Dr. Mahathir: It doesn't bother me.

Sri: And why is that?

Dr. Mahathir: Because I don't know what he's going to say. And he's not committed.

Sri: And what's your message to Aung San Suu Kyi? Because you've made it very clear your position on the Rohingya matter. Have you lost faith in Aung San Suu Kyi?

Dr. Mahathir: When Malaysia became independent we gave citizenship to people who were obviously of foreign origin. We made them citizens, they became a part of the government, there was less discrimination, only some discrimination on certain issues. But Myanmar cannot even allow people who have been there for 800 years. They have been there. And in fact when Myanmar was formed, actually by the British, the British set up a single government to govern the area they called Burma. But inside Burma were these Rohingya. They are not foreigner. They are people who were living there.

Sri: Do you support her anymore? And if you don't support her, what does that mean from the standpoint of diplomatic relations, foreign relations between Malaysia and Myanmar?

Dr. Mahathir: Well, we still continue with our diplomatic relations, but we feel very unhappy indeed with the behavior of Myanmar.

Sri: Singapore-Malaysia relations. How rocky are they, Prime Minister?

Dr. Mahathir: Well neighbours, who compete with each other, we have some tough crisis and problems, but we can resolve these problem. It's not going to lead to confrontation or violence of any kind. But obviously when you are competing, there are times when you win, sometimes when you lose and sometimes there will be disappointment or even satisfaction with the relation.

Sri: The two-year deferment of the high-speed rail link has been worked out. Can you guarantee from your side that there will be no more delays to the HSR project beyond 2020?

Dr. Mahathir: Well we said two years and we hope to be able to recover enough to have the money to finance a new line. But is it necessary that we should continue with something that was costly and perhaps not as give-return as we expect.

Sri: And Prime Minister can we finish our conversation by asking you to offer a few words on the situation in the Middle East. How concerned are you about deeper political stability in that region?

Dr. Mahathir: The problem with the Middle East is a refusal to recognize the problem. You see, before there was no problem in the Middle East. The whole area was ruled by Turkey at one time and they were not fighting each other. Syria for example was one country, it is now divided into five countries now. All these things were perpetrated by the British and the French, dividing up. And then on the top of that they decided to take land belonging to the Arabs and give it to the Jews because they had a Jewish problem. Their solution to the holocaust is to take other people's land and give it to the Jews. There were 94% Arabs in Palestine at that time. Naturally they are very angry. Unless you attend to that, the problem, the frustration felt by the Arabs and find ways to stop them from feeling that way, you will not solve the problem of the Middle East.

Sri: Have relations between Malaysia and Saudi Arabia changed since the killing of Jamal Khashoggi?

Dr. Mahathir: Our relations with Saudi Arabia is not influence by just one issue. We are really unwilling to be associated with wars. And currently Saudi Arabia is fighting a war

with Yemen and we cannot have our troops there, because people may suspect that we are helping Saudi fight a war in Yemen. That is our main problem. Of course the Khashoggi thing has come up and if it is true then I think...

Sri: And there is a historically severe famine in Yemen. And it's cost the lives of thousands of Yemenese. Proxy wars continue in Syria. What role can Malaysia play as a Muslim country to stop the killing?

Dr. Mahathir: Preach Islam. Because Islam does not promote those things. They are doing things against the teachings of Islam. They have forgotten their religion. They are being lured, they are being led by the sentiments, the leadership of their leaders. They do not follow their Muslim religion, they follow their leaders. That's why these things happen.

Sri: Prime Minister, I'm very grateful for your time today.

Dr. Mahathir: You're welcome.

Sri: Thank you very much. Thank you.

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