

Malaysia's desperate gamble
www.time.com
Sep. 04, 1998
Frank Pellegrini

Malaysian prime minister Mahathir Muhammed blames it all on the Jews. The rich Western economies. The foreign currency speculators. And of course on George Soros, a rich Western Jewish foreign currency speculator whom Mahathir calls a "criminal" and "a moron." Mahathir believes the IMF, far from wishing the current crop of East Asian leaders a speedy recovery from their current economic crises, engineered Indonesian president Suharto's fall and would like very much to bring about his own. So it shouldn't have come as too much of a surprise when the defiant Dr. Mahathir threw the switch Tuesday on a plan that has the Western economic establishment covering its eyes in horror -- but also peeking through its fingers: impose strict currency controls and save the embattled Malaysian ringgit simply by removing it from the fray. The theory is attractive, especially to the prickly Mahathir: An inconvertible currency can't come under attack by evil foreign speculators, and that frees the safely walled-in government to take a deep breath, lower its internal interest rates, and pull itself out of recession by stimulating domestic growth -- without subjecting its every move to the brutish vagaries of the global marketplace.

Mahathir's plan, of course, baldly flouts all the IMF's -- and nearly everyone else's -- current wisdom on saving Asia. According to their formula, a package of stopgap loans and high internal interest rates can protect the currency and attract foreign capital in the short term by restoring investor confidence. Follow that with swift and painful economic reforms, and recovery should be imminent. But for Mahathir, flipping the Western economic establishment the bird is part of his plan's allure. The West, Mahathir insists, fears a ascendant Asia, with its large Muslim populations and strong governments, and is gleefully exploiting the Asian crisis as an opportunity to tear down the region's governments and replace them with toadies. In Mahathir's play, the pound of flesh has already been torn away. Like its neighbors, Malaysia lies bleeding, but when Korea, Thailand and Indonesia eagerly gulped down \$150 billion in IMF bailout loans, Mahathir wanted none of the West's medicine. Shylock, after all, was no healer.

Currency controls aren't anathema to Westerners for nothing: They're very vulnerable to abuse and corruption; they require massive bureaucracies to regulate; and the sheer complexities of a government's implementation of them tends to scare away capital. Because Mahathir's plan places tight limits on importers and exporters as well as Malaysians who travel abroad, it also means regulatory headaches for the governments of neighboring countries. Currency controls have traditionally resulted in stagnation and recession, and tend to move countries farther away from the reforms they will eventually need to prosper in today's unforgiving global economy.

But the plan is not without advocates. The IMF's prescription has so far been a spectacular failure; at this dismal point, what does Asia have to lose? MIT's Paul Krugman wrote in FORTUNE that such an admittedly desperate "Plan B" could be Asia's only way out, and when he learned Mahathir had apparently followed his advice, Krugman even wrote an open letter to the prime minister advising him of the many sinkholes along the path ahead. The words may have come from a Boston economist, but the inspiration clearly came from the country Mahathir touts as the East's answer to U.S. world dominance: China. Ironically, it has been China that has been the West's great consolation in this crisis: By refusing to devalue the yuan, even as slowing growth threatens to derail her own emergence as a first-world economy and nation, China has kept a bad situation from getting much worse.

Strict currency controls -- its invisible Great Wall against the briefcase-wielding Western barbarians -- have allowed China this bravery.

The wave of Western capital that sloshed through Malaysia at the height of the Asian miracle in 1993 had just begun to recede when Mahathir began using the example of China to connect his disdain for Western economics with his hatred of Western politics. "China may be authoritarian, but it is better than anarchy," Mahathir said in 1994. "Business needs order. It needs to have a predictable future." He continued: "The sanctimonious pronouncements on humanitarian, democratic and environmental issues are motivated by the same selfish interest -- the desire to put as many obstacles as possible in the way of anyone attempting to catch up with the West."

Absent from those and any other of Mahathir's proclamations over the past few years has been any sense of personal culpability for the tar pit that his country's economy has abruptly become. The usual Asian suspects -- crony capitalism, lack of financial disclosure and plain old-fashioned corruption -- are as responsible for Malaysia's fall from grace as any of the wretched excesses of Western investment capitalists. But now, Mahathir has in mind for Malaysia a resurgence that not only restores to his people their aching recent prosperity but forces a cataclysmic readjustment of the way the West would have emerging markets run. In short, Mahathir Muhammed dearly wants to teach the West a lesson.

Every revolution needs a purge, and when Mahathir decided on his desperate measure, the heads of those advisers who had pushed for IMF-style prescriptions immediately began to roll. Last week saw the resignations of the central bank governor, Ahmad Muhammed Don, and his deputy, FongWeng Phak. On Wednesday, Mahathir fired his IMF-friendly deputy prime minister and sometime political rival, Anwar Ibrahim, after Anwar refused to resign. After just a few days, it is far too soon to tell whether Dr. Mahathir's desperate gamble will succeed or fail. The details of the plan have yet to be laid out, and those details will likely determine whether the plan is panacea or poison. Malaysian stocks tumbled on the news Tuesday, then lurched upward Wednesday as investors scrambled for bargains; the next few weeks will likely be turbulent as investors and speculators learn the ropes of what will be a very different Malaysia as far as outsiders are concerned. Inside Malaysia, Mahathir's plan has already caused chaos -- after Anwar's sacking, three truckloads of riot police were dispatched to the prime minister's residence to quell protests by Anwar supporters.

Mahathir's plan is easy to dismiss as the folly of an economically inept autocrat. But by going through with it, Mahathir has drawn a line in the sand: It's him against the barbarians. And in this age where economic and political ideology have become inextricably entwined, the stakes are high. Mahathir evidently dreams of an Asia resurgent on its own terms, reborn in its own image, not that of the West. If his course succeeds, and Malaysia recovers, the rest of the region could follow his example and pull disastrously back from necessary economic reforms. At worst, the West could eventually be confronted with a China-led belligerent East -- and new Cold War for the 21st century. At best? Malaysia does as Krugman recommends: use the breathing room afforded by the plan to continue reforms and thus emerge with a hardier economy than before.

The current global crisis has no precedent since the Great Depression -- and that led to World War II. As Russia melts and Asia founders, the West's credibility is waning fast, along with some cherished ideas, both political and economic, about the way to run a modern planet. But what works must come before what should work, and as Mahathir shakes his fist at the West and talks holy war, what he may not realize is that pragmatists everywhere -- bankers, speculators, barbarians, maybe even George Soros -- are rooting for him. If only for a little while.

Copyright © 2007 Time Inc.

Source : <http://www.time.com/time/arts/article/0,8599,14653,00.html>