

THE STAR

DATE: 15/10/2008

M'sia rescue model debated

The Star - 15/10/2008

A decade on, the jury's still out on Malaysia's approach to the Asian financial crisis

WASHINGTON: As more countries become enveloped by the financial pandemic that began in the United States, some in Malaysia are warily watching the events with a dose of *Schadenfreude*.

After all, it was just a decade ago that the commodities-rich exporter was lambasted for ignoring the blueprint that world leaders and the International Monetary Fund had urged.

Instead of taking tens of billions of dollars in aid from the IMF, Malaysia did what was viewed then as a radical move: It self-prescribed its recovery.

It stopped outflows of capital for one year, stabilised its volatile currency rate by fixing it to the US dollar, and refused to rein in spending.

"We were criticised by everybody, but we believed strongly we only had the people of Malaysia to answer to," former Finance Minister Tun Daim Zainuddin said last Friday in a phone interview from Kuala Lumpur.

"We had seen what had happened with African nations that had taken aid from the IMF; they never are free."

Malaysia defied the prevailing orthodoxy of the day and closed its doors to outside aid even as Asian financial markets, including its own, were collapsing.

It also took over the toxic debts of its banks, banned short-selling of stocks and lowered interest rates — moves US regulators have implemented here in the last month to stave off a credit market meltdown.

Months after Malaysia implemented its rescue plan, markets rebounded and the economy grew.

As world financial leaders gather in Washington this weekend to discuss the global financial crisis, there continues to be debate over whether Malaysia's approach worked or if its recovery was simply luck.

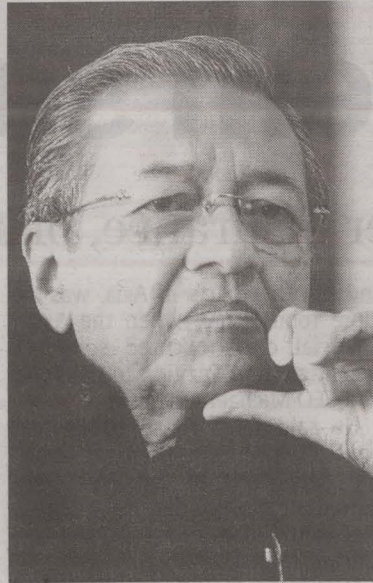
South Korea and Thailand were strengthened under strict controls by the IMF.

Even Daim credits part of Malaysia's turnaround to the country's ability to export oil, electronics and textiles.

But most economists agree that at the very least the plan did not sink the economy into further depths.

"It's very difficult, even with the benefit of hindsight to say the Malaysian controls were effective because they closed the stable doors after the horses had bolted," said KS Jomo, an economist now serving as secretary-general for economic development at the United Nations.

As US Treasury Secretary Henry



Tun Dr Mahathir Mohamad

Paulson announced last Friday that the government would be willing to take equity stake in some banks, some questioned whether there was a double standard for western nations and everyone else.

"I remember how well we were told never to bailout failing companies ... better still they should be sold at fire-sale prices to American investors," former Malaysian Prime Minister Tun Dr Mahathir Mohamad wrote last week in his personal

blog.

Malaysia's unique history in the emerging markets financial crisis of the late 1990s began after Thailand, Indonesia and South Korea all agreed to deregulate their financial institutions to attract more foreign capital, raise interest rates and tighten fiscal budgets — remedies prescribed by the IMF.

Those fears also hit Malaysia, where the stock market index fell from 900 in 1997 to 200 in 1998, and the currency dropped by about 40% that year.

The pressure was intense for Malaysia to follow suit.

At the urging of then IMF director Michel Camdessus, French President Jacques Chirac met Dr Mahathir and Daim to try to convince them to take aid from the IMF and restructure its policies, according to Daim.

"It was clear that what the IMF was doing in Asia was trying to save Wall Street, which is what the Paulson plan is doing now, and the Malaysians were saying no way," said Joseph Stiglitz, former chief economist for the World Bank and Nobel prize recipient in economics.

Malaysian leaders ignored international pleas.

"This was very important to restore confidence in the market," Daim said. For small and medium-

sized companies, the government provided low-interest loans.

The international community balked over Malaysia's grip on capital flows and refusal to tighten fiscal spending.

Then US Treasury Secretary Robert Rubin said Malaysia's moves "concerns me very deeply ... the global economy has benefited enormously from both trade liberalisation and the flows of capital that have taken place over the last 10 or 15 years."

The IMF warned in its October 1998 World Economic Outlooks report that Malaysia's plan "may also turn out to be an important setback not only to that country's recovery and potentially to its future development, but also to other emerging market economies that have suffered from heightened investor fear of similar actions elsewhere."

Yet in one year, the economy stopped its downward spiral and began to rebound. In 1999, gross domestic product rose 5.8% compared with a contraction of 7.4% in 1998.

Retired from government service, Daim said the US failure started with its decision to let Lehman Brothers go bankrupt.

"That was the critical piece that set the dominos falling," he said. "They needed to bring back confidence two weeks ago." — LAT-WP