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"MALAYSIA'S POLITICAL AND ECONOMIC
PRIORITIES TODAY "

Malaysia's tenth general elections are said to be only weeks or months away. It is no surprise, therefore, that I have been asked to speak on Malaysia's political priorities today. I have also been asked to speak on Malaysia's economic priorities in the wake of the great East Asian economic crisis that has devastated the region -- especially the more open and more liberalised dragon and tiger economies -- following the Thai Baht crisis of July 1997.

2. Before I do so, please let me first put my country in context. Context is always critical. Unless you understand our context, many things that we do may appear completely puzzling. Very much in the way that we would misunderstand America if we did not have an appreciation of the American context.

3. Bereft of context, many might have agreed with the famous Samuel Johnson near the end of the 18th century when he said, perhaps only half jokingly of the Americans that "they are a race of convicts, and ought to be thankful for anything we allow them short of hanging".

4. Bereft of context, many in Europe might at the time have agreed with Robert Southey, who wrote in 1812:

"See what it is to have a nation to take its place among civilized states before it has either gentlemen or scholars. They (the Americans) have in the course of twenty years acquired a distinct national character for low, lying knavery."

5. In 1820, forty-four years after the foundation of the United States of America, a passionate Scottish observer of the United States by the name of Sydney

Smith wrote:

"In the four corners of the globe, who reads an American book? Or goes to an American play? Or looks at an American picture or statue? What does the world yet owe to American physicians or surgeons? What new substances have their chemists discovered? What old ones have they analyzed? What new constellations have been discovered by the telescopes of Americans? What have they done in mathematics? Who drinks out of American glasses? Or eats from American plates? Or wears American coats or gowns? Or sleeps in American blankets? Finally, under which of the old tyrannical Governments of Europe is every sixth man a slave, whom his fellow creatures may buy, and sell, and torture?"

6. What a difference a hundred years or two makes!

7. Malaysians were colonised by three different Western powers for more than four hundred years. We were then occupied by another imperial power, this time Asian, a country called Japan. In exploiting us for their own good, they also left us some good things. But they robbed a whole nation and people of something priceless -- their freedom and their dignity.

8. Many might have difficulty understanding the importance of these seemingly abstract things: freedom and dignity. I am sure that your Founding Fathers and all those who fled to the shores of the United States would have had little difficulty in understanding how much they mean.

9. After four decades of independence, many might say that it is time for Malaysians to forget the shame and the trauma of colonialism. Perhaps. But it is a little difficult for Americans of African origin to forget slavery and the struggle for civil rights even with the passage of substantial time. It is difficult, even after more than half a century, for Jews everywhere to forget Auschwitz.

10. When the colonial powers left us, they also left us with a huge ethnic and religious problem. Whereas before, Malaysia was mostly Malay and mostly Muslim, we had become a multi-racial, divided society of many religions and many tongues, uncertain loyalties and conflicting identities. The indigenous Malays, who were numerically in absolute majority and who made up the preponderant majority of voters -- whom the British had said that they had come to help and save -- also found themselves the poorest and the most backward community. The country was a tinderbox, held in the vice of absolute poverty, poorer than even Haiti, caught in the grips of ethnic prejudice and bigotry, thrown into the

violent cauldron of the Cold War between Communist and Capitalist. To many, including many Malaysians, we were clearly destined for the thrash can of history.

11. In our past, we had no experience with democracy. We were just so many little indigenous kingdoms where the rulers had absolute power and their subjects none. Then for over four centuries, the new rulers continued to have absolute power -- only, they were Portuguese, Dutch, British, Japanese and British again. Yet when we became independent we chose the democratic system. Our Governments are elected by the people. We have had nine free elections during 42 years of independence, elections in which opposition candidates won and even captured several states.

12. We made it work despite a deeply divided society, despite a communist terrorist insurrection lasting 33 years, and despite more than four decades of struggle between extremist Islamic deviates and fundamentalist Islam -- which elsewhere has brought violent results.

13. After adding up all the pluses and minuses, anyone with an objective mind will concede that we have been a great success in a developing world of few successes.

14. Our only relapse was thankfully brief: an 18-month interregnum- beginning in May1969, when the country erupted with communal riots in the capital. I will return to this event later, for it is indelibly marked in the psyche of our nation. It is a turning point in our short history.

15. We were -- and are -- a very small country with very limited resources. There are now only 22 million of us. Although in purchasing power parity terms our standard of living is one fourth yours, our gross domestic product in 1997 was just one and a quarter percent of your GDP.

16. You can but we cannot withstand the onslaughts of currency traders and hedge fund manipulators. They command resources out of all proportion to ours. They are Goliath and we are not even David on a pebble-less beach. We are merely the scurrying crabs awaiting the trod of giant feet.

17. If I can bring you back to your own history, please do not forget that whilst you are no longer so, we are still very young. We are only 42 years old.

18. Perhaps you will appreciate my point better if you place yourself in the year 1818, 42 years after you so gallantly won your independence against the same colonial power, more than four decades before you tore yourself apart in one of the most bloody civil wars in history. We are now where you were in 1818, close to

the time when Samuel Johnson thought that Americans should be thankful for not being hanged, when Smith thought that America was good for nothing, and when Southey believed that America and Americans were a disgrace to civilised society. Many outsiders today have a view of Malaysia very close to these people's views of America then.

19. Despite what anyone thought of you, you managed to stumble through the obstacles and overcome them! The world today is much more complicated than ever before. Malaysia at 42 cannot afford too many assaults and cannot fumble through.

20. Let me turn now to what I consider to be some of the political priorities for my country today. For reasons of length, I will touch on only three: First, transforming a population divided by ethnicity, language, religion and culture into a united nation of Malaysians; Second, ensuring that Malaysia remains progressive and liberal, in its outlook and in all its policies at home and abroad; Third, ensuring that Malaysians are able to enjoy peace, harmony, stability and prosperity at all times.

21. Until the Malays, the Chinese, the Indians, the Kadazans, the Ibans and all the others see themselves and each other as Malaysians first and as members of their ethnic grouping second, our primary challenge will remain. Until all our communities live in fair and full partnership with one another, with no feeling of subordination, marginalisation or alienation, our task is not over.

22. I believe that the balanced, just and equitable policies that we have adopted in every sphere -- politics, education, poverty eradication, economic development and so on -- policies which have their onerous costs as well as their profound benefits, have helped Malaysia to achieve significant progress in building a united nation since the racial riots of May 1969. The affirmative action programmes we have adopted to remedy inequities in the economy and the extension of political participation among the races have served us well and will continue until racial origins no longer influence our thinking excessively.

23. The progress we have achieved so far has led many to hold us up to the world as an example of a successful multi-ethnic polity. Maybe we are. But I have no illusions regarding the continuing challenges that confront us. Our fault lines are still our ethnic and religious cleavages. Religious dogma and racial sentiment are still powerful forces in my country, and if we allow ourselves to be misled into lending our

support to the wrong cause, we may yet witness the utter unraveling of the Malaysia that we know. We have no wish to be another Kosovo or Bosnia-Herzegovina.

24. This brings me to the second political priority confronting my country. We need to ensure that Malaysia remains progressive, tolerant and liberal in its outlook. We need to see to it that our moderate, tolerant and accommodative policies remain in place. I believe that we need to ensure the continuity of this outlook and the accompanying policies because Malaysia's very survival depends upon this.

25. Malaysia will soon go to the polls. The people -- and their supporters and sympathisers outside -- have two choices: support the stable, very broad-based 14-party Barisan Nasional or opt for a loose alternative coalition of parties whose most powerful core member is the supposedly Islamic party, PAS. The other parties in this alternative coalition are not expected to do particularly well. The main beneficiary from the fallout of the Anwar affair is not the party of his wife: the Keadilan party. The main beneficiary will be Keadilan's coalition partner, PAS.

26. PAS is the party which has most skillfully exploited the situation and gained the greatest strength. It is a party noted for its misusing and misinterpreting Islam to its political advantage. It is sometimes regarded as an Islamic fundamentalist party. But this it is not. If the fundamentals of Islam are adhered to, love of peace and tolerance towards others would be the result. My party, the United Malay Nationalist Organisation believes in peace and tolerance which is the true teaching of Islam. We claim we are fundamentalists in the true sense. The main promise that PAS makes is that when it governs it will chop off hands, legs and heads, something that the Quran prescribes only under very special circumstances. Certainly the Quran does not prescribe it in a multiracial society where non-Muslims are subjected to English Common law and Muslims to Islamic law because it will result in injustice. And believe it or not true Islam abhors injustice.

27. PAS is obsessed with keeping women, especially pretty women out of sight. They should not only be covered up but should not work outside their homes. PAS has no recognisable economic policy other than to say it should be Islamic. What it means by being Islamic is not clear.

28. Please understand that whilst in Malaysia there are corporations that can take on the world, whilst there are hordes of Malaysians who are eager to be in

the vanguard of the IT and multimedia age, there are also quite a number who believe that television sets should be thrown into the river because they are an instrument of Satan.

29. In the run-up to Malaysia's tenth free general elections we see a level of foreign intervention not witnessed since the 1964 general elections when Indonesia and the Communists sought to abort the birth of Malaysia. Foreigners, including many in the United States, who now seek to promote and support the opposition should have a clear understanding of the strategic options: either the modernist, progressive, tolerant, liberal, tried and tested UMNO - led Barisan Nasional stable coalition with a spectacular track record or a loose coalition of parties dominated by a deviationist Islamic PAS, whose record of performance as a Government is there for all to see in the state of Kelantan, a political party with a clearly and openly stated agenda for the establishment of its particular version of an Islamic state.

30. I can only hope that when support is given the opposition parties, the foreign supporters know what they are doing. The governing National Front party does not solicit foreign support but it can do without the continuous distorted reports about it.

31. I have said that our third political priority is to ensure that Malaysians are able to enjoy peace, harmony and stability at all times. In Malaysia we attach an especially passionate value to them, because we learned their worth the hard way. For many years beginning in 1948, Malaysia was threatened by armed communist insurgents. We were forced to live under guerilla attacks for 32 long years. We defeated the communist insurgents only after enormous misery and at great cost. In addition, for three years from 1963 to 1965 we endured confrontation or konfrantasi from Indonesia.

32. But our greatest peace and stability lesson was drawn from the incidents of May 13, 1969, when for several days buildings were razed, dwellings were gutted and there was blood on the streets of Kuala Lumpur. Parliamentary democracy was suspended for 18 months and rule by decree was imposed.

33. We learned then, and learned well, what a great president of yours, Abraham Lincoln, learned 131 years ago when he said, and I quote, "There is no grievance that is a fit object for redress by mob law." He was speaking to a gathering of young people then. His words are as meaningful as ever, particularly to the young people of Malaysia today. All of them were born after May 13, 1969, more than 30 years ago. The under-30s

have been the great beneficiaries of the post-1969 transformations. They have no personal or deep recollection of the nightmare that their elders went through.

34. The vast majority of Malaysians today are in agreement with Abraham Lincoln. There is no grievance, imagined or real, that cannot be addressed through the relevant processes in a democracy. Dissent my Government not only tolerates; dissent it welcomes, for the right to dissent is at the heart of democracy. But street agitation, intimidation, violence and disorder we will not countenance. Dissenters have rights but the Government is also responsible for keeping the peace for the majority.

35. We know that the flames of racial violence, once ignited, are difficult to douse. We in Malaysia have seen the tragic events among our brothers in neighbouring Indonesia. Malaysia makes no apology to anyone, for being firm in maintaining law and order.

36. Allow me now to turn to Malaysia's economic priorities namely domestic structural reforms; Ringgit stability; and international currency reform.

37. Even before we imposed selective capital controls on September 1, 1998, we had launched a most comprehensive and far-reaching "National Economic Recovery Plan". This NERP set out over 200 specific measures and dozens of structural reforms. We will passionately pursue these to ensure a speedy, sound and sustained economic recovery.

38. In the light of the dozens of structural reforms and the actual steps we have taken, it is a little puzzling that we continue to be hammered every day for a lack of commitment to structural reform.

39. Malaysia is excessively dependent on external demand and exports as a source of economic growth. Domestic demand in the immediate, short and medium term -- is too under-developed. Our exports are also too dependent on manufactured goods, which account for more than 82 per cent of all our exports. This is excessively high.

40. With the lowest prices in the world for Big Macs - according to the MacDonald Index - with the cheapest, highest quality hotels in the world, we will proceed to make Malaysia a tourist haven and a shopper's paradise. We must vigorously expand and make more productive our services sector, even as we deepen and enhance the value-added quality of our industries. We must achieve much higher levels of local content. All these things

require the most fundamental and difficult structural reform.

41. Yet we hear practically not a word on these critical areas for structural reform. Instead, each and every day, we are bombarded by unceasing advice and great intellectual discourse on the need to sell our banks to foreigners - to ensure their adequate capitalisation, to ensure the benefits in efficiency that come from having foreign banks which would introduce the state of the art in banking, which can ensure productivity-enhancing competition, etc.

42. Do these great foreign intellectuals, these great foreign economists, these great foreign capitalists, these great foreign journalists not know that Malaysia has a problem of excess capital and liquidity? Do they not know that the banks have been fully re-capitalised? Do they not know that for years Malaysia has foreign banks, 13 altogether now? They own one third of all banking assets. Are the efficiency and competition gains to be achieved only when 100 per cent of all the banks in Malaysia are foreign owned? I suspect that 50 per cent of the attacks on our so-called neglect of structural reform would simply and miraculously disappear if we agreed to sell all our banks to foreigners. The other half would disappear if we gave the fullest encouragement to foreign capital to buy up the rest of productive Malaysia.

43. We see no reason to sell our family silver when we do not need foreign cash. Some 41 per cent of our total GDP is saved - something that makes Japan's savings rate look rather low. Yet great experts who know their textbooks and who have vast experience in capital-starved Latin America and Eastern Europe and elsewhere keep telling us we must adopt policies that will ensure the inflow of foreign funds.

44. We see no reason to sell Malaysian corporations, which we have spent a generation to foster, at fire sale prices - especially since we were able to put out the fire before it got completely out of hand. Our selective capital controls did that.

45. When we did so, we took the greatest care to leave foreign direct investment untouched. These selective capital controls became even more selective in February when we allowed the repatriation of equity capital (subject to a repatriation levy). As of September 1, 1999 all old money which could not bolt after we closed the stable gates, can now leave without any condition whatsoever. We are very gratified that since we opened what many commentators called "the flood-gates" on September 1, 1999, very very little foreign capital has

left.

46. The single and only reason why we adopted the September 1, 1998 selective measures was to stabilise the Ringgit. It was not to buttress the Ringgit. It was not to hold the Ringgit at some unsustainable level. It was not to strengthen the Ringgit exchange rate.

47. Without the very bold and laboriously-calculated selective measures to guarantee currency stability, we were certain that the crazy currency gyrations of the Malaysian Ringgit would continue. The IMF measures did not stabilise Asian currencies until banks stopped lending to highly leveraged funds after the LTCM debacle and Asian countries ignored the IMF directions. The recent attacks on the Baht shows that it is still not safe out there.

48. But we were told by the keepers of the holy writs that we were plain stupid or crazy. A senior Clinton administration official was quoted as telling the New York Times that the measures would be a "spectacular failure". Although all that we did was to declare a peg of 3.8 Ringgit to the US dollar and to no longer allow the Malaysian Ringgit to be bought and sold offshore, we were said to have abandoned the market system. The great International Herald Tribune said that "Malaysia last week shut the door on the global economy".

49. As the 17th biggest trading nation in the world, we would be committing suicide if we were to shut the door on the global economy. We are of course not very bright, but we are not that stupid. Our trade with the world has actually increased while foreign direct investment and foreign tourists are still coming in in droves.

50. Mr Michel Camdessus has now said: "I praise the way in which Malaysia has been able to adopt a soft system of controls". I would like to place on record our thanks for the kind words now coming from the IMF and elsewhere.

51. The favourite question now being asked by foreign currency traders, foreign portfolio investors and the know-all foreign media who think that "investment" means foreign equity investment and "global capitalism" means currency trading, is this: when will Malaysia lift all the measures and allow the Ringgit once again to be furiously traded on international markets.

52. We have said often enough that the controls will not be lifted until the International Financial Regime

is made safer through reforms. There is absolutely no reason why the interest of a few rich currency traders should be allowed to prevent reforms for making currency attacks less destructive from being made. While waiting for this, we will continue with our controls because we are not doing anyone any great deal of harm and we are doing ourselves a great deal of good.

53. Some have argued that this planet has a choice between making the world safe for global capitalism or making global capitalism safe for the world. I think that we must do both. I am not against global capitalism per se.

54. But I do believe passionately that we must make currency speculation - a small but dangerous part of global capitalism -- safe for the world.

55. All this talk about global financial architecture is so much hot air. The powers that be are enjoying unprecedented prosperity and they see no reason to do anything. They see benefits from being able to push up currencies here and push them down there. So who cares about millions being thrown out of jobs, unable to buy food and medicine, looting and rioting and overthrowing Governments. They are all happening to other people in other countries.

56. We in Malaysia have seen the devastation wrought on our country and on our neighbours. They are very real to us. And we are not about to return to the good old ways until the good old ways are changed.

57. Malaysia has managed its heterogenous people and its complex economy relatively well. We must be doing something right. We are not asking the world to follow us. All we are asking is to be left to do things in our own way.