Globalization Wields Double-Edged Sword

By Mahathir Mohamad (Prime Minister of Malaysia)

It was the first time that such meetings have focused on the financial system, and its prominence this time was because developing nations have real problems with it. Among the G-15 nations, Malaysia, Indonesia and Brazil have faced problems caused by currency traders and we know the consequences of having them attack our economies.

Many countries were eager to hear about how Malaysia handled the problem including currency controls and regulating short-term capital from other countries.

Now, we appreciate better the kind of threat that can come with globalization. We all agree that globalization is something that has to happen. We cannot stop it. But on the other hand, it should be regulated in such a way that it will not harm national economies.

We need to have a dialogue with the north, or developed nations, in particular with the Group of 7 leading industrialized nations. We think that when the new international financial architecture is designed it should not be done only by the G-7 countries or Bretton Woods institutions such as the International Monetary Fund (IMF), the World Bank or BIS. Developing countries like Malaysia should have a say in changing the world financial system since we have faced the problems that it has caused.

During the G-15 meeting, Venezuela was very keen to know about Malaysia's currency controls in detail. I explained how we prevent Malaysia's money from getting into the hands of the currency traders. The question was how do we pay for imports when we control the currency. In case of Malaysia, I explained that we export more than we import. Therefore we earn sufficient foreign exchange to pay for our imports and even to pay our debts.

However, in the case of Latin American countries, the value of imports is much bigger than that of exports, so they must borrow money. Because of this, when their currency is devalued they find themselves unable to pay. So it is quite difficult for them to emulate what Malaysia has done.

Brazil has taken a different course of action by accepting the IMF regime. Although we were attacked in the same way as Brazil has been, we have been able to resist the need to go to the IMF and we have regained control over our currency.

We in Malaysia have been discussing currency controls for quite a long time. Many of us were afraid that they would damage our economy. It was difficult to convince everybody that we need to have currency controls. Eventually everyone agreed that we have no other way out. Now we know that currency controls have been effective in stabilizing our economy and getting it back onto the growth path.

Before attending the G-15 summit, I attended the World Economic Forum in Davos, Switzerland. I used to go there every year, but for the past 10 years other representatives from my country have attended. These included Malaysia's former...
Deputy Prime Minister, Anwar Ibrahim, who was very popular as he always agreed with the Western views. So, I wanted to know why the Western nations were criticizing us for what we have done. I wanted to have the opportunity to speak to them about our currency controls. I found out that they did not know what kind of controls we have imposed. Still many of the speakers in Davos were supportive of the idea of currency controls. Their attitude has apparently changed. Many even expressed their objections to the IMF and the currency traders. Even Canadian Prime Minister Jean Chretien spoke about "the young boys with red suspenders" trying to teach governments how to run their countries. He obviously did not like to be told how to run his country by these youngsters who had never run governments.

More people now support the Malaysian stand, so much so that a well-known Western magazine expresses the view that the rantings of Prime Minister Mahathir are now regarded as "conventional wisdom."

In a way, I am happy that many people in the West now understand our views on currency trading but we are still not getting anywhere regarding regulating currency trading. The United States, in particular, is still very much against any attempt to curb currency trading.

In Davos, I really had the opportunity to meet senior editors of major Western newspapers and television networks. Some of them seem bent on making me out as anti-Jewish. Apparently mentioning that the currency traders are Jews and Europeans prove that I am anti-Jew. That Jewish firms such as Salomon Smith Barney and Goldman Sachs are advisers to the Malaysian government is not regarded as disproving my being anti-Jew. There seem to be a desire to antagonize the Jews so that Malaysia will face difficulties in attracting investments or borrowing money.

In 1997 in Hong Kong at the World Bank-IMF meeting, I blamed currency traders for the economic turmoil that we were suffering. Immediately, I was attacked for failure to understand the international financial market and the herd behavior of the investors. Everytime I criticized them, they pushed down the value of the ringgit, almost as though to punish me. Some Malaysians also advised me not to talk against the currency traders because they can make things difficult for us.

Because of IMF pressure we had initially increased the rate of interest and squeezed credit for our businesses. The banks and the businesses were almost bankrupted. The Malaysian government then decided to go against IMF advice and impose currency controls, reduce interest rates and increase liquidity. We were condemned by almost everyone. They said the currency would get worse or at best would only improve for a short while.

But today, as we all know, many experts have come round to the view that we are right on both counts. We did not disagree with the views of others simply for the sake of disagreeing. We may not be expert analysts and learned academics. But we have considerable experience in developing Malaysia, a multiracial and potentially unstable country once dependent upon just two commodities, rubber and tin. We converted Malaysia into a middle-income country with 80 percent of its 70 billion U.S. dollars in exports consisting of sophisticated electronic goods. Surely we must know something about running a country, developing it, and managing its finance. When we
took a stand against currency trading and unrestricted capital flows, we knew what we were doing.

My deputy, Anwar Ibrahim, whom I had to remove recently, was a populist. He likes to be praised, especially by foreign VIPs. He is especially liked by his U.S. counterparts because he always agrees with them. I am afraid I like to speak my mind and some of my views are not popular with foreigners. This is something that I cannot help.

In my student days, I was a rebel. I was not popular with my teachers. Even though I got good marks I didn't get the right recommendations. I wanted to study law, but I could not get a scholarship. When I was young we had to call all Europeans 'masters,' in Malay 'Tuan.' We were always regarded as inferior to them. I always resented having to call other people master. I think in my own country I should be the master. We called them master out of politeness, but they assumed that when we called them master we thought of them as being our masters.

Malaysia was not a full colony. We had our own governments, our own sultan (king). When the British came back after World War II, they wanted to make Malaysia a full colony. I organized protests against the proposed Malayan Union. I didn't want to be under other people's rule. I want to be independent. To be independent means not taking orders from others. If you are independent you must be free, to be able to say what you think.

Unfortunately, although the West advocates free speech, they don't like others to freely criticize them. It is also the same with globalization and free flows across borders. While they insist on free flows of capital across borders they object to free flows of people, especially poor colored people into their countries. Fairness and justice mean different things to them. I remember the case of a well-known golf course in California that was bought by the Japanese. The Americans sold it because they needed the money, but Japanese people could not become members of the golf club. For them it is fair, but if we do the same thing it is not fair.

The 21st century looks gloomy for the developing world. Unfortunately it is likely to be so unless the G-15 countries can influence the decisions of some countries of the northern hemisphere, such as those in Europe.

There is a deliberate attempt by the north to dominate the world economy. Oil companies, which were broken up into small companies, are now merging to become much bigger. Automobile companies, too, are merging to become huge. All industries are becoming very, very big, because with their size they can dominate small industries like those in Malaysia. They attacked our stock market, causing the shares to go down, so that they can buy our companies cheap. In the end they will control our economy and our people. I am so worried that we will lose our independence when that happens.

Politically, we may seem independent, but once we become economically dominated we will lose our political freedom as well. An example is the banana republics of Central America. There, the economy is entirely dependent upon the revenue from bananas. The foreign owners of the banana plantations are able to influence the politics of these countries.
The only way we can prevent these things from happening is by working together. Japan should understand our problems. Japan is the world's second-biggest economy, so Japan should work together with us.

Before the recent meeting of G-7 financial ministers in Bonn, Germany, I wrote letters to all the leaders of G-7 countries, including U.S. President Bill Clinton. I asked that developing countries be included in the planning of a new world financial architecture. The G-15 nations should take a role in this process. As you know, the north has decided that only the G-7 and institutions like the IMF, the World Bank, BIS and others under their control will design the new architecture. We have no say. The solution is going to help them, not us. Japan, Germany, France, even Canada, believe that some form of currency control is needed. However, currency trading is done almost exclusively by U.S. firms. So until the United States agrees, there will be no new financial architecture.

I am also in favor of the idea drawn up by Japan to have an exchange rate band between the U.S. dollar and the yen or the euro. I flew to France on the way back from Jamaica, and met French President Jacques Chirac for two hours. He also agreed with this idea, he even went to the United States to push that idea. But, as you know, the resolution of that issue was vague. The United States says that everybody agrees not to regulate currency trading but others say that only the United States is against the idea. Currency trading benefits the United States. So why should they regulate it?

In a bipolar world, capitalist countries had to be friendly or we would defect to the communist side. Now we cannot defect to the other side anymore. This will be so unless Japan and the EU countries decide to oppose the gigantic power of the United States. Japan can help if it disposes of the dollar bonds that it holds. Alternatively, Japan can make some money available to us.

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