
Interview: Tun Daim Zainuddin



Malaysia's economic success defies the spin doctors

Malaysian First Finance Minister Tun Daim Zainuddin also serves as Special Functions Minister, and chairman of the National Economic Action Council, which was created on Jan. 7, 1998, to deal with the economic crisis sweeping South-east Asia. On Sept. 1, 1998, Malaysia changed course, abandoning the tight-money parameters recommended by the International Monetary Fund (IMF), and adopting selective capital controls. On Jan. 23, 1999, EIR interviewed him at his office in Kuala Lumpur (see EIR, Feb. 26, 1999). In June, we submitted the following written questions to him, for an update on Malaysia's progress. In the intervening months, economic commentators and leading financial institutions, in large degree, have swung around nearly 180%, abandoning doomsday forecasts of the consequences of those controls, and giving Malaysia the "thumbs up" on stabilizing and rehabilitating its economy. Academics in Singapore and Indonesia are debating (and defending) the road taken by Malaysia in their daily newspapers. From Poland to South Africa, the "Malaysian way" is under review. On June 24, Nelson Graves, Kuala Lumpur bureau chief of Britain's Reuters news wire service, abandoned his long-held skepticism, and declared, "Malaysia has all but closed the door on its deepest recession in decades and embarked on the path to economic recovery just as the government contemplates general elections."

Malaysian officials have made clear that they see no reason to abandon those selective controls unless and until a promised new, global financial architecture to protect nations against future speculative attacks, is implemented. Malaysia's Central Bank, Bank Negara, has set a goal of increasing foreign exchange reserves to an unprecedented 12 months of retained imports, as a buffer against new financial storms.

Perhaps the most astute comment on what Malaysia has accomplished comes from Tun Daim Zainuddin himself, at the recent General Assembly of the ruling United Malays National Organization. Nowadays, when asked to describe the nature of "IMF," Tun Daim said that Malaysia, unlike its neighbors Thailand and Indonesia, can say, "I am fine."

—Gail G. Billington

EIR: In the five months since we last spoke, there has been an almost universal about-face in public perceptions of Ma-

laysia's response to the global financial crisis, from rating agencies like Standard & Poor's to IMF Managing Director Michel Camdessus. In a speech he delivered in Hong Kong on May 17, Camdessus said, "I praise the way in which Malaysia has been able to adopt a soft system of controls." Why the change?

Tun Daim: You should ask them why they have changed their perception. As far as I am concerned, the Malaysian government has consistently done what it thought was the best for the country given the circumstances, despite whatever other people said was the right prescription.

EIR: Malaysia has been looked to as a model for similarly situated nations. Dr. Jerzy Kropiwnicki, member of the Polish Council of Ministers, was very upbeat on Malaysia's measures during a May trip to Kuala Lumpur. And Japan's Vice Finance Minister for International Affairs, Eisuke Sakakibara, told a June 2 press conference in Tokyo that he, personally, and the Japanese government were glad to have defended Malaysia's selective capital controls. Have you had similar feedback from other countries?

Tun Daim: Yes, we have had positive support from many quarters.

EIR: In the United States, President Clinton wrote to Malaysia's Ambassador, Dato' Ghazzali Sheik Abdul Khalid: "The United States is proud of the positive role that our trade and investment have played in Malaysia's remarkable economic development." Mr. Ernest Bower, chairman of the U.S.-Association of Southeast Asian Nations (ASEAN) Business Council, took issue with an April 19 editorial in the *Washington Post* (see box). Both suggest that the President and American business community do not share the view expressed by Vice President Al Gore at the November 1998 APEC summit in Kuala Lumpur, but instead see Malaysia as a key ally and partner in the region.

Tun Daim: Our trade and investment links with the United States have always been good, and were not severed, irrespective of whatever was said by the U.S. Vice President. We want to be a friend to all and an ally to no one.

I have also seen various reports from American businessmen and associations that have been very positive on Malay-

sia. These reports were written after first-hand observation of what is happening in the country and measures being taken to strengthen our economic management.

EIR: Can you give us a status report on the progress of what Malaysia has accomplished over this period, in recapitalizing the financial and banking system, and dealing with non-performing debt? And, further evidence of progress toward recovery?

Tun Daim: In recapitalizing the financial and banking system, Danamodal [the Special Purpose Vehicle set up to recapitalize and consolidate the banking sector] has injected 6.3 billion ringgit [\$1.66 billion] into 10 financial institutions in order to restore stability in these affected institutions. Meanwhile, Danaharta [the Asset Management Co., established to deal with non-performing loans and their recovery] has acquired and is currently managing RM 34.2 billion [\$9 billion] worth of non-performing loans.

The good progress made by these agencies is part of the Malaysian government's efforts in strengthening the banking and financial sectors, which is an important component in our economic recovery efforts.

In terms of other indicators of progress, let me briefly say that most are pointing toward a return to confidence. Our trade balance has been in surplus for a straight 18 months; international reserves are up and can finance close to seven months of retained imports; the contraction in the real economy has bottomed out and we are expecting growth in the second quarter of 1999 to be positive; inflation has been contained, with the CPI [Consumer Price Index] falling from 6.2% in June 1998 to 2.9% in April 1999; the Industrial Production Index rose by 3.1% in February 1999 and retrenchment has fallen. The KL [Kuala Lumpur] Composite Index has also shot above the 800 mark, compared with 262 points on Sept. 1, 1998, when selective capital controls were imposed.

EIR: You recently headed up a three-pronged "road-show" to Japan, Europe, and the United States to test the waters for a sovereign bond offering, the first in a long time. What is the purpose of the bond offering, how successful was it, and what would this allow Malaysia to do? Were there any complications?

Tun Daim: The "road-show" to Asia, Europe, and the United States was primarily an opportunity for Malaysia to meet investors directly and tell the Malaysian recovery story, in particular, the measures being taken to strengthen economic management. There was positive response from a broad distribution of investors in all three regions. In my opinion, we achieved the main objective of the "road-show."

With respect to the second part of your question, the purpose of the bond offering was to make a sovereign presence in the market and establish a benchmark in the U.S. dollar market. You will know that Malaysia has been absent from

the international markets for almost ten years. Here again, in my view, the bond offering was a success, given the positive response from investors. The bond issue was three times oversubscribed.

Just prior to the launch, difficult market conditions emerged. The prospect of high U.S. interest rates and developments in Latin America resulted in uncertain market conditions. Spreads widened across the board for emerging market papers and generally unstable market conditions prevailed. Amid this turbulence, however, Malaysia was able to access the market and successfully launch and price the issue. The enthusiastic market response to the bond offering reflects investors' confidence in Malaysia's economic fundamentals.

Whose 'disgrace'?

In its April 19, 1999 edition, the *Washington Post* ran a scurrilous editorial, entitled "Dr. Mahathir's Disgrace," attacking Malaysia's Prime Minister Datuk Seri Dr. Mahathir bin Mohamad for the dismissal of former Deputy Prime Minister and Finance Minister Anwar Ibrahim, condemning the subsequent trial of Anwar Ibrahim, and panning Malaysia's break with International Monetary Fund orthodoxy. The *Post's* editorial elicited two significant letters to the editor, one from Malaysia's newly arrived Ambassador to the United States, Dato' Ghazzali Sheik Abdul Khalid, and the other from Mr. Ernest Z. Bower, president of the U.S.-ASEAN Business Council.

Ambassador Ghazzali's response was published in the *Post* on May 4, in which he cited many examples of positive feedback on Malaysia's economic progress. He also challenged the *Post* on its reading of the corruption trial of Anwar Ibrahim:

"The facts speak for themselves: the case is the longest trial in Malaysia's legal history, held over 78 days with 44 witnesses called to testify for the prosecution and defense; Mr. Anwar was represented by nine lawyers of his own choosing; the hearing was open to the public, as well as to foreign observers and media; the trial was reported verbatim by the international and local media; and the judgment ran to 394 pages. . . .

"The fact that Mr. Anwar's wife, Wan Azizah, has been able to form a political party to promote her political agenda is a testimony to the vibrancy and vitality of Malaysia's democratic system."

Bower's April 26 letter was *not* published by the *Post*, but was posted to the website of Malaysia's National Economic Action Council. Bower subsequently edited and

EIR: During this period the Malaysian stock market has rebounded substantially, as have other regional markets. Is there any concern that the “irrational exuberance,” to put it mildly, in the U.S. stock markets, could be spilling over into Asia, with the threat of a new bubble?

Tun Daim: I do not think so. You must appreciate the fact that stock prices in Malaysia, for instance, dropped to levels far below their net tangible value. Share prices have lately risen, due largely to the improving economy, the return of confidence, and also to some extent low interest rates. What you are seeing is not so much the irrational exuberance spilling into Asia, but rather Asian stock markets recovering the value that was lost during the time of crisis.

EIR: As part of the measures taken in September 1998, Malaysia took action to counter offshore trading in ringgit on the Singapore-based Central Limit Order Book (CLOB) market. I understand that there have been some attempts to resolve outstanding issues related to that trading. How was Malaysia affected by this, and what is likely to happen?

Tun Daim: I would like to reiterate that CLOB was created by the Singapore authorities to facilitate the continued trading in Malaysian shares in Singapore after the Malaysian government’s announcement regarding the delisting of Malaysian shares from the Singapore Stock Exchange with effect from Jan. 1, 1990. It was also a unilateral decision by the SES to cease the trading of Malaysian shares on CLOB on Sept. 4,

expanded the text and submitted it as written testimony to a House International Relations Subcommittee on Asia and the Pacific hearing on June 16 on “Malaysia: Assessing the Mahathir Agenda.” No Malaysian representative was invited to address the hearing; rather, only four subcommittee members heard from Deputy Assistant Secretary of State for East Asia and Pacific Affairs Ralph Boyce; Singaporean Dr. Linda Lim from the University of Michigan Business School, who said that Malaysia’s controls were unnecessary and slowed down its recovery; and former Bush administration official Douglas Paal, a self-described close friend of Anwar Ibrahim, whose seminars in Kuala Lumpur were funded with Anwar’s help.

The following is from Bower’s April 26 letter:

“I am writing to express my concern that recent articles, particularly your April 19, 1999 editorial on Malaysia, may lead readers to believe that Malaysia is a dangerous, unstable country with leaders hostile to American interests. This is not my experience, nor the experience of many Americans who know Malaysia well. . . .

“I am the president of the U.S.-ASEAN Business Council. The council is the largest national organization representing American businesses interested in Malaysia and the other member countries of the Association of Southeast Asian Nations (ASEAN). Our members comprise over 400 U.S. companies and states doing business in Southeast Asia. . . .

“I have been travelling to Malaysia for 12 years, and just returned from spending a week with 45 American executives in Malaysia’s capital, Kuala Lumpur. Our perspective coming home is that Malaysia is making good progress in its efforts to respond to the financial turmoil in Asia. . . .

“Malaysia is a stable democracy, and has long and strong relations with the United States. The United States is the leading investor in Malaysia, and Malaysia is the second-largest importer per capita of U.S. goods and

services in the world. . . .

“Your recent coverage of Malaysia seems to focus on crises and negatives, whereas there is a much more complex landscape to understand. Such reporting could be particularly harmful because many Americans have not visited Malaysia. . . .

“A close look at what is happening in Malaysia today would reveal a story of a well-managed country working out of its deepest financial crisis since its independence from the United Kingdom in 1957. To its credit, it is doing so without a fraying of its multi-ethnic, multi-religious fabric, which many had predicted a recession would cause.

“I feel confident that research would show that Malaysia and the United States have more in common than most imagine. We are both ethnic and racial melting pots, who have worked hard to define ourselves after being colonized by the British. The United States has had more than 200 years to accomplish what Malaysia has aspired to achieve in less than 40 years. We work together closely in areas such as commerce, trade, and regional and international security where we share many common interests and strategic goals. How many of our neighbors know that Malaysian peacekeepers helped rescue U.S. Rangers when they were trapped in Mogadishu, Somalia, saving many lives, or that it was Malaysian authorities that captured and returned Wali Khan to the U.S. to stand trial for the New York [World] Trade Center bombing.

“All democratically elected leaders, including Malaysian and American, have to face difficult domestic political issues. Malaysians are gracious and welcoming people, and I believe your reporting is doing them an injustice. The same harm is also done to Americans who might not have experience with Malaysia yet. I hope you will consider looking deeper into the situation in Malaysia. It may add texture and context, making your reporting and editorials more accurate and insightful.”

1998. Therefore, it would be the responsibility of SES to resolve the CLOB issue.

There have been some private-sector proposals to resolve the CLOB issue. But, in the view of the Malaysian authorities, these proposals should be offered for the consideration of the Singapore authorities. However, any proposal will be subject to approval by all relevant Malaysian/Singaporean authorities where such approval is required.

EIR: What are Malaysia's economic priorities now? I believe I read recently that RM 2 billion [\$52.6 million] has been earmarked for infrastructure projects.

Tun Daim: Malaysia's main priorities are for sustained economic recovery and preparing the economy for the next millennium. In this context, projects involving social and physical infrastructure are top on the list of our spending priorities, both of which will help us to revive the economy, while at the same time strengthening the basis for future growth and development. We are also putting a lot of effort into strengthening our banking and financial system.

EIR: Up to the point that NATO launched its bombing campaign against Yugoslavia, momentum had been building to focus on and give greater substance to the discussion of so-called "new global financial architecture." To what extent has that discussion been derailed by the military action, including difficulties introduced by the bombing of the Chinese Embassy in Belgrade and the cautiousness in NATO's acceptance of Russia's role?

Tun Daim: The work on reforms of the international financial architecture is being led by officials mainly from finance ministries and central banks of the developed countries, the Bank for International Settlements, the IMF, and the World Bank. It is most likely that the people dealing with financial architecture issues at this stage would be a different group from those seeking a political and military solution to the Kosovo crisis. As can be seen from the report of the G-7 Finance Ministers to their leaders at the Cologne summit two weeks ago, it seems to me that work on architecture is proceeding smoothly rather than being derailed.

EIR: The APEC Finance Ministers meeting, while not coming up with an itemized program of action on the "new architecture," certainly seemed to get much more specific in identifying the areas where action is needed. Malaysia's representatives played a key role in that, calling for direct regulation of hedge funds, for example. Can you give us a better idea of the discussion there?

Tun Daim: A key concern of many APEC economies during the recent Finance Ministers meeting was that the ongoing work to reform the international financial infrastructure would lose momentum, given improving prospects for many economies in the region. During the meeting at Langkawi, ministers recognized that the extraordinary strains on finan-

cial markets around the globe over the past two years had raised legitimate concerns not only among policymakers, but also market participants, regarding the potential exposure to turbulence. Ministers were in agreement that the international community needed to come up with a better way to avoid the severity of future crises as witnessed in Asia. Malaysia, as chair of the APEC Finance Ministers process for the 1998-99 cycle, tried to steer discussion toward three aspects of the international financial architecture issue, these being, enhancing transparency and disclosure standards, strengthening financial systems, and improving corporate governance.

EIR: Press reports also suggested that the ASEAN members had reached a consensus on the need for global financial reforms. That goes further than what has been said before. What does it mean?

Tun Daim: At their meeting in Hanoi in March 1999, ASEAN Finance Ministers agreed on a common position with respect to reform of the international financial architecture. Among others, the common ASEAN stance called for a review of the roles of the international financial institutions, appropriate mechanisms to enhance private-sector participation in crisis management and resolution, and the need for standards for transparency and disclosure to be applied equally to the private and public sectors. In addition, ASEAN has stressed, for greater transparency and accountability of the international credit-rating agencies, the need for closer and more coordinated monitoring of short-term capital flows, and the need for an orderly and well-sequenced approach to capital account liberalization.

EIR: In his book, *A New Deal for Asia*, Prime Minister Dr. Mahathir suggests that the financial contagion that swept Asia was aimed at China, whose economy was more protected by its exchange controls. The open fight over the new director of the World Trade Organization (WTO) comes at a time that the question of China's entry into the WTO, and the conditions of that entry, are on the table. What is Malaysia's view on these issues, and are they related?

Tun Daim: I feel that these two issues must be kept separate. The first is an argument that if East Asian currencies depreciated while China's exchange rate retained its value, then one would see a situation where China loses its competitiveness, particularly in the production of low-cost goods, and this could be a way to contain China's ambitions of becoming a developed country.

The second issue, who heads WTO, is to me a question of power. The West wants to ensure that they have control over the levers of power of all international economic, trade, and financial institutions, so as to control the agenda of these organizations.

EIR: Malaysia and China recently celebrated the 25th anni-

versary of establishment of diplomatic ties. Foreign Minister Syed Hamid Albar spent five days in Beijing, during which time a joint statement was issued, outlining renewed commitment to regional great infrastructure projects, such as the Trans-Asia Railway and the Mekong River Development Program.

Does this suggest that countries in the region are looking increasingly to the bigger picture of the combined capabilities of an economically integrated Asia as the pathway to recovery, rather than “surviving” the contagion?

Tun Daim: I would see these two developments as separate from one another. Our immediate concern is to get our economy out of what has been the deepest economic contraction ever faced. It is a priority. The regional infrastructure projects are part of a more medium- and long-term perspective.

EIR: Economic reconstruction is taking center stage in the Balkans. Malaysia strongly defended the people of Bosnia in the earlier Balkan war, and has continued that commitment with Kosovo. Reconstruction of Bosnia fell far short of what was required, contributing to continuing destitution and the potential for future conflicts in the region. *EIR* has called for a crash economic development program of southeastern Europe, as an extension of the Eurasian Land-Bridge transport and infrastructure grid. How would Malaysia view that?

Tun Daim: We will have to study this proposal thoroughly first.

EIR: Reconstruction is also immediately relevant, given the recent induction of Cambodia into ASEAN, thus completing the goal of the ASEAN founding fathers to bring all ten Southeast Asian countries into the organization. Reconstruction in Cambodia, as in the case of Bosnia, goes way beyond the levels of assistance provided by the group of donor countries. The Balkans, Cambodia, Central Africa, raise the question of what kind of new financial architecture is required, especially if you compare those requirements to the Bank for International Settlements’ latest report on the levels of outstanding derivatives — in the range of \$93 trillion. Can the current system handle genuine “reconstruction”?

Tun Daim: I am not sure whether the international financial architecture in its present form can handle genuine reconstruction, particularly when the sums involved are that massive.

EIR: In *A New Deal for Asia*, Prime Minister Dr. Mahathir writes, “A world century is now possible for the first time. No single nation, no single people, and no single region should inherit the future; all nations, all people, all regions should have the same opportunities.” Is that not the shared view of the government?

Tun Daim: Yes, it is the shared view of the government that we should collectively work for a world century where all people, all nations, and all regions should have the same opportunities.

**Former Mexican President
José López Portillo:**

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for the world to listen to
the wise words of
Lyndon LaRouche.’



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