

Malaysia celebrates a year of resistance to the IMF

by Gail G. Billington

August 31 marked the 42nd anniversary of Malaysia's independence from British colonial rule. But, 24 hours later, the country celebrated a second declaration of independence: the first anniversary of the selective capital controls imposed on Sept. 1, 1998, which saved Malaysia from following its neighbors, Thailand, Indonesia, and South Korea, in seeking advice and assistance from the International Monetary Fund (IMF). First Finance Minister and Minister of Special Functions Tun Daim Zainuddin disclosed this year that for months prior to the imposition of the selective capital controls, Prime Minister Datuk Seri Dr. Mahathir bin Mohamad, patiently but stubbornly, countered every single argument *against* capital controls put forward by his cabinet, including, in the last phase, winning over then-Deputy Prime Minister and Finance Minister Anwar Ibrahim.

The howls of protest that erupted in response to Malaysia's move have significantly, but not totally, subsided. IMF Managing Director Michel Camdessus cautiously stated in Hong Kong on May 17, 1999, "Consensus seems to be emerging that controls may have a place when there's risk of a crisis, but only as a breathing space while other fundamental measures can take effect. . . . I praise the way in which Malaysia has been able to adopt a soft system of controls. . . . They've wisely used the breathing space provided by the controls."

On Sept. 1, 1998, the central bank, Bank Negara, fixed the exchange rate of Malaysia's currency, the ringgit, at 3.8 to the U.S. dollar; imposed a one-month deadline to repatriate offshore ringgit; and announced that all trading in Malaysian securities had to be done through the Kuala Lumpur Stock Exchange or an exchange recognized by the KLSE. Directly targeted was the Singapore-based Central Limit Order Book (not recognized by the KLSE), which accounted for \$20-25 billion in offshore ringgit accounts. In addition, the government imposed a one-year moratorium on repatriation of portfolio capital and profits. On Feb. 4, 1999, this investment policy was modified to a graduated levy, depending on how long funds remained in Malaysia. A series of measures were taken to ease credit and direct it into essential infrastructure and social safety spending.

Malaysia has not, and is not, waiting for the approval of others. Prime Minister Dr. Mahathir, Tun Daim Zainuddin, and other members of the national economic team have said repeatedly that the controls will remain in effect until such time as mere talk of "new financial architecture" to protect nations from speculative rampages is translated into deeds. After more than 40 years of averaging more than 6% growth per annum, Malaysia suffered negative 7.5% growth in 1998, followed by negative 1.4% growth in the first quarter of 1999, but, by the second quarter of 1999, there was 4.1% growth. Officials have been careful not to claim that "recovery is here"—a very wise move, given statements made in Tokyo on Sept. 1 by the IMF's Asia operations head, Hubert Neiss, that, at best, the region is experiencing a "precarious recovery."

'Our nation, our responsibility'

On Malaysia's National Day, 1998, Dr. Mahathir titled his televised address "Our Nation, Our Responsibility," and motivated the emergency steps to be taken: "We must strive on our own to revive our nation's economy and defend our sovereignty and independence." He charged that more than \$1 trillion had been stolen from the Asian economies. "Thank God, so far we have managed to defend our country," he said.

This year was a far happier occasion, with an estimated 120,000 Malaysians attempting to crowd into the National Stadium in Kuala Lumpur. In his televised national address, Dr. Mahathir developed a theme that is central to the progress of civilization throughout the ages: that the human species is uniquely able to transform the conditions of its species existence, by rejecting ideas that no longer serve to improve the conditions of mankind, and discover new ideas that do. A second major theme of his address was that, in the course of the economic crisis, Malaysia had come to know its friends and enemies.

Below (see *Documentation*) are extracts from Dr. Mahathir's statements on National Day, and greetings to Malaysia on its "double independence" anniversaries from China's President Jiang Zemin and Premier Zhu Rongji. Also included is the text of an Aug. 26 wire, written by the state news

service Bernama and subsequently posted to the website of the National Economic Action Council, which quotes *EIR* Founder and Democratic Presidential pre-candidate Lyndon LaRouche's call for a class action suit against the IMF.

On Sept. 2, in Kuala Lumpur, Malaysia's premier think-tank, the Institute of Strategic and International Studies, and Mainichi Newspapers of Japan will co-sponsor a one-day symposium on currency controls and Association of South-east Asian Nations monetary cooperation. An announcement written by the ISIS describes Dr. Mahathir's decision to impose the controls as "a decision that was bold in concept, breathtaking in its implications, and ballistic in the reactions evoked." It added, "Dr. Mahathir's epochal decision had prompted Japan and some Asian countries to realize that no single organization has a monopoly on the appropriate response to crisis situations." Speakers will include Dr. Mahathir, Japan's former Deputy Finance Minister Eisuke "Mr. Yen" Sakakibara, Thai Deputy Prime Minister and Commerce Minister (and future World Trade Organization head) Supachai Panitchpakdi, World Bank Senior Adviser Dr. Amar Bhattacharya, Jetro chairman Noboru Hatakeyama, and Supachai adviser Dr. Sura Sanittanont. ISIS CEO Tan Sri Dr. Noordin Sopiee will lead a discussion that will include Sakakibara's proposal for an Asian Monetary Fund, a subject Dr. Sopiee discussed at length in the Sept. 1 *New Straits Times*. In the past year, Malaysia has shown what a nation is capable of to defend its sovereign interests — an idea captured in the new slogan *Malaysia Boleh!*

Documentation

Malaysia adopted 'positive measures'

National Day greetings from China, *New Straits Times*, Aug. 31, 1999.

Chinese President Jiang Zemin sent congratulations to the Yang di-Pertuan Agong Sultan Salahuddin Abdul Aziz, on the occasion of Malaysia's 42nd National Day. In a message issued by the Chinese Embassy in Kuala Lumpur, Jiang took note of the 25th anniversary of diplomatic relations between the two countries, with remarkable progress achieved in various fields, and declared China's willingness to make joint and unremitting efforts with Malaysia to forge a lasting relationship. "Over the past 42 years, Malaysians, with their diligence and wisdom, have continuously made renewed achievements in building their wonderful homeland which have won the deep admiration of the Chinese people."

In Prime Minister Zhu Rongji's message to Dr. Mahathir, he took note of the achievements of Malaysia's people: "Especially when facing the impact of the Asian financial crisis, under the prominent leadership of your Excellency, Malaysia

has adopted a series of positive measures and achieved significant results on which we would like to express our heartfelt delight."

Mahathir: 'We must defend our freedom'

Excerpts from Prime Minister Dr. Mahathir bin Mohamad's 42nd National Day message, as reported by the *Business Times*, Kuala Lumpur, Aug. 31.

"Do not underrate your own capability to think, to come up with constructive ideas. The fact is we are just as good as others, if not better than they are. . . .

"We were colonized for more than 400 years. We have been independent for just 42 years and we are not willing to have our freedom taken away although the era of globalization has arrived. We must defend our freedom. . . .

"Malaysians will be able to defend this beloved country if we recognize the dangers that we face and if we acquire all the necessary knowledge and skills."

Dr. Mahathir said the country need not rush to adopt new ideas from the West as history has many examples of ideas, propagated supposedly for the good of mankind, which were later abandoned, as the results were not as expected. The ideologies of communism and socialism are two examples that had destroyed many countries, he said.

"It is not an impossibility if ideas such as liberal democracy, free market, and globalization were to be dropped too.

"We have already seen the destruction that comes with these ideas. That is why we not only need to be careful in adopting Western ideas but also to create our own ideas in trying to improve our lot. . . .

"What has happened during and after the attack on our economy is a calamity arising from the information technology and globalized era. If we allow Western powers to interpret the meaning of globalization, a more severe disaster will befall us.

"It should be remembered that all of today's advanced nations were once backward. These countries and their people progressed because they were able to identify and discard what were obstructing their development. . . .

"There is no need to elaborate here what these obstructions are. What is important is our willingness to do what is required of us. . . .

"The start of the new century and millennium is also an opportune time for us to discard all bad traits that have hindered our development and for us to seriously practice whatever is good for us and our country."

LaRouche: IMF feared that Malaysia would succeed

"IMF Members Feared MSIA's Controls Will Work," Bernama/National Economic Action Council website, Kuala Lumpur, Aug. 26.

American economist and Democrat Presidential candi-

date Lyndon LaRouche has revealed that the greatest fear among International Monetary Fund (IMF) members at their annual meeting in September last year was that Malaysia's radical anti-IMF controls might succeed.

He said attendees to the meeting in Washington last year privately expressed their fear that this would undermine the role of the Fund as the world's debt policeman, a job which has increasingly come under criticism for making things worse for financially troubled countries.

"A country in crisis has little choice but to turn to the painful IMF cure but failure to sign with the IMF threatens all but the most courageous governments with being blacklisted from international credit markets for years," he said.

IMF policies worsen the country's economy at severe social and economic cost, he said in an article entitled "It's Time To Sue the IMF" contained in the *Executive Intelligence Review*, which is based in Washington.

It was issued by the National Economic Action Council here today.

Unlike Thailand, South Korea, and Indonesia which went to the IMF for billions of dollars in financial assistance, Malaysia staged its economic recovery by moving away from the Fund and adhering to expansionist policies while adopting unorthodox selective capital controls.

The move, chastised by many including the IMF, restored stability to the financial system by weeding out volatile speculative funds, leading to Malaysia being able to post a positive growth of 4.1% in the second quarter of this year.

In contrast, when it adopted in late 1997 tight monetary policies prescribed by the IMF in other affected economies, Malaysia slipped into a crippling recession, causing the economy to contract by 7.5% last year.

LaRouche said that few private lenders or governments would lend to a country which has not been "certified" as behaving according to IMF conditionalities after undergoing a crisis, he said.

LaRouche emerged over the course of the 1970s and 1980s to rank among the most controversial international political figures, calling for a "just new world economic order" and the urgency of affording what has sometimes been termed "Third World nations and their full rights to perfect national sovereignty."

He said the Fund's policies aggravated what was originally a serious short-term crisis in Asia since July 1997.

The policies "have resulted in worsening the economic prospects of hundreds of millions of people around the world," he said.

He said that the scale of IMF damage to global real economic growth now is such that it threatens far more than the individual countries involved.

"It is time to end the role of the IMF in this criminal activity before it ruins us all," he said.

In his blunt manner, LaRouche also said that the IMF was

running a swindle on behalf of private banking interests.

Referring to the latest developments between the IMF and Ukraine, he said: "The Ukraine government should sue the IMF and World Bank for damages resulting from following the IMF's advice."

This should be a class-action suit with other nations which have been caught in the same IMF swindle. All these countries are entitled to recover costs and damages from the IMF and World Bank, he said.

LaRouche said despite the appropriate and unprecedented criticism of IMF policy, "nothing has changed for the better."

Since 1977 and the Italian IMF agreement, no Group of Seven (G-7) country has applied for IMF medicine.

"The IMF, has instead, become in effect a weapon against the economies least able to take such medicine — emerging or once developing countries," he said.

East Europe: 'Marshall plan,' or disintegration

by Lothar Komp

At the end of the decade which began with the crumbling of the Iron Curtain, the economic performance of Russia, measured in U.S. dollars, is 50% of what it was in 1989. In Ukraine, there is a residue of a bare one-third of the economic activity that existed in 1989. Over the course of the "shock therapy" experiments carried out by the International Monetary Fund (IMF) and by economists from Harvard University, investments in the modernization of infrastructure and industry in Russia were depressed to below the miserable levels which had prevailed under the communists, and expenditures for health, education, and research have been almost entirely eliminated. At the same time, hundreds of billions of dollars in capital value were extracted from the economy, and these found their way ultimately into the stock-market bubbles of New York, London, and Frankfurt.

Now, both Russia and the Ukraine are in a state of unofficial, sovereign bankruptcy. According to new estimates of the Socio-Economic Institute of the Academy of Sciences, 60 million Russians already live below the poverty level, while overall life expectancy has been lowered within this decade by some five years.

Economic developments in the so-called "reform countries" of eastern Europe have taken a somewhat different course. Some countries, such as Poland, the Czech Republic, and Hungary, managed to attract significant foreign direct investments, with which a few oases of modern industrial production emerged. But, since there was no broad invest-