

told reporters that he thought the discussion at the G-15 was more meaningful than in the past, because national leaders “are really worried about the possibility of being marginalized by the big powers,” the Bernama news agency reported on June 21. He said the number of countries seeking membership in the G-15 is rising, but he thinks that it should be expanded only on the basis of commitment to its purpose. He also said that there is a continuing lack of understanding of what globalization entails and what its effect will be.

While in Egypt, Dr. Mahathir addressed members of the industrial and power committee of the Egyptian Senate during a visit to the 10th of Ramadan City, a new industrial zone about 70 kilometers from Cairo. The meeting included Malaysian International Trade and Industry Minister Rafidah Aziz and Foreign Minister Syed Hamid Albar. Dr. Mahathir underscored his government’s efforts in the industrialization process and the various incentives offered to investors. Today, \$84.5 billion, or 80% of Malaysia’s exports are made up of high-value manufactured goods.

Dr. Mahathir said that Malaysia is still not fully industrialized, although it is no longer dependent on agricultural or mining products. “We are still a developing country and with globalization there is a danger that we may lose control over our industrialization program,” he said. “We have, as you know, recovered from the foreign-induced economic turmoil. We are very vigilant,” he said. “Our experience in industrialization has been very wide. I think I can say we succeeded in our industrialization plan. But, I cannot say whether the next attack will destroy us or not.”

Iranian President Visits China

Iranian President Seyyed Mohammad Khatami arrived in China on June 22 for a six-day state visit. He was accompanied by Foreign Minister Kamal Kharazmi, Defense Minister Ali Shamkhani, Mines and Metals Minister Eshaq Jahangiri, and Culture and Islamic Guidance Minister Ataollah Mohajerani, as well as a large business delegation.

“Chinese participation in development projects in Iran demonstrates the breadth and depth of relations between the two countries,” Deputy Foreign Minister Mohsen Aminzadeh stated. He said that the sale of natural gas and Chinese participation in the construction of power stations in Iran were on the agenda. Bilateral trade reached \$1.3 billion in 1999. Iran wants to increase its exports to China of both petroleum and non-petroleum products.

The 70-member Iranian trade delegation, which includes public and private sector representatives, planned to participate in Shanghai in a seminar on “Trade and Investment Opportunities in Iran and China,” co-sponsored by Iran’s Export Promotion Center and Shanghai’s Council for Foreign Trade Promotion (CCPIT). A CCPIT official termed the visit “unprecedented,” and said that it would be a “turning point in the expansion of economic relations” between the two countries.

Dr. Mahathir: Bretton Woods Worked, Floating Rate System Failed

by Michael O. Billington

The following speech was presented by Datuk Seri Dr. Mahathir bin Mohamad, Prime Minister of Malaysia, to the Sixth Nikkei Shimbun International Conference on “The Future of Asia,” on June 9, in Tokyo. His speech, described as “philosophical” by Thailand’s *The Nation*, made several crucial points of importance to citizens of all nations:

1. Clinging to *fixed ideas*, no matter what the subject matter, will lead inevitably to disaster.
2. To understand history, we must understand *change*.
3. It is the *content and effect* of a policy, not its adherence to orthodoxy, which must instruct us.
4. The Bretton Woods system of fixed exchange rates worked—the floating rate policy imposed after 1971 failed.
5. As the West has refused to reform the failed world financial system, regional alliances of nations must act on their own, for the benefit of the whole world.

This speech comes in the context of two world-historical events in the last month. First, the Chiang Mai Initiative (see “Asia Begin New Arrangements for the Coming Dollar Crash,” *EIR*, May 5, and “Financial Crisis Prompts Asian Chiang Mai Initiative,” *EIR*, May 19, 2000) in which ASEAN Plus Three (the 10 members of the Association of Southeast Asian Nations plus China, Japan, and Korea) declared their commitment to forge joint financial structures to defend against international speculators and to foster real economic development in Asia. Second, with the support of China, Japan, and the ASEAN nations, North and South Korea took steps toward reunification, eliminating a major lever of instability to the Anglo-American geopolitical strategists, and bringing the potential for multinational Eurasian development projects significantly closer.

‘Regional Convergence’

An additional note of introduction is necessary preceding Dr. Mahathir’s speech: Thailand’s Deputy Prime Minister Supachai Panitchpakdi, who is scheduled to take over as Director General of the World Trade Organization (WTO) in 2002, declared the “regional convergence” proposed in the Chiang Mai Initiative would take off this year, and that it is “inevitable” in response to globalization. Dr. Supachai has been the most outspoken supporter within the Thai govern-



Malaysian Prime Minister Datuk Seri Dr. Mahathir bin Mohamad. This century should be the “century of worldwide prosperity,” he said, in which Asia can be “the engine of growth, pulling along with it Africa, Latin America, and the former Eastern bloc countries,” but only if Asia asserts itself against globalization orthodoxy.

ment of Malaysia’s policy of selective controls on currency exchange. Supachai did not include the United States in his discussion of “regional convergence,” which led several defenders of International Monetary Fund (IMF) orthodoxy to react. Singapore’s Senior Minister Lee Kuan Yew, London’s favorite comprador in Asia for nearly 50 years, insisted that any trade pact among Asian nations must not exclude the United States. Lee was backed up by U.S. Prof. Robert Scalapino, who warned that “it is imperative for Asia to keep the U.S. engaged economically, politically, and militarily. An exclusion of the U.S. would not be beneficial.”

Earlier proposals for an Asian-only alliance put forth by Malaysia and Japan, were rejected at the time due to opposition from the United States. The failure of the IMF’s policies in Asia since 1997 have dramatically changed the political climate, however. *The Nation* on June 5 published an editorial titled, “The Unthinkable: Asia without the U.S.,” which complained that “America has done what it could in successive years to just about antagonize everybody in the Asian region. . . . How Thailand will reconcile a world without America is something we have not dared to think about. But it is also unthinkable to have a futile and illusive hope in America’s reliability as an ally, as we experienced in the crisis.”

As *EIR* founder Lyndon LaRouche concluded his essay “Regional Organizing under a New Bretton Woods” (*EIR*,

June 11, 2000): “The most recent folly of the U.S. government in pitting itself against the vital existential interests of both Japan and continental Europe, for the sake of that worthless enterprise known as the Al Gore Presidential pre-candidacy, leaves the world no likely option, but reliance upon developing cooperation among regional blocks as the means for bankrupting and replacing the existing world monetary and financial systems.”

Dr. Mahathir on ‘The Future of Asia’

Here are excerpts from Dr. Mahathir’s speech to “The Future of Asia” conference in Tokyo, on June 9. Subheads have been added:

I would like to thank *Nikkei Shimbun* for inviting me to speak once again at its International Conference, this time on “The Future of Asia.” Looking into the future has become almost a science, and many experts profess to know what will happen in the immediate, near, and distant future. I am afraid I am not one of these experts, but I like to look at history, so I may avoid the mistakes of the past and thus ensure a reasonably good future for my country with less of the mistakes of the past. But unfortunately in the history of mankind, learning from past mistakes is not common. And so we keep on making the same mistakes and paying the price.

2. Human history is full of so-called solutions to the problems of human society. Each time a solution was found, the efficacy and infallibility of the solution was accepted as being beyond doubt. Those who espouse the solution will permit no criticism or opposition. They become so fanatical that they would figuratively and sometimes literally burn the heretics at the stakes.

3. The Feudal system, Republicanism, Capitalism, Socialism, and Communism are among the ideas invented by men to deal with the inequities and injustices in his society. When first introduced, each was regarded as perfect by those who espouse them. They were all practiced as articles of faith and anything done in their name were accepted unquestioningly. They were embellished, interpreted, and reinterpreted until their originators could not recognize them anymore. But as long as the name remains, questioning or condemning them would make one a heretic.

4. But over the years their imperfections would show and result in negating the very objectives they were supposed to achieve. Unfortunately, at this stage it is not the original objectives which count. The important thing is faith in the solution. Even if it destroys the society whose ills it was supposed to cure, it does not matter. It does not matter because the solution is correct.

5. And so we see how Feudalism was allowed to flourish long after kings became tyrants and oppressed their people, destroying their kingdoms. The same thing happened with Republicanism, with Socialism, Communism, and, in time, with Democracy.

6. The same thing will happen to all human ideas, concepts and ideals. Over time they will all become quasi-religious, fanatically believed in until they bring about new problems which are often worse than the problems they were supposed to solve. . . .

8. Today we are into the floating rate, into the free, unregulated market, into globalization, and, of course, into democracy and freedom. We believe in them absolutely. No one may question them, certainly not condemn and reject them.

9. When Malaysia decided to fix the exchange rate between our ringgit and the U.S. dollar, we were roundly condemned as stupid people who do not understand finance. We were told we will soon fall flat on our faces and have it rubbed in the mud as well. Our economy would collapse. We would be begging for help from the IMF and the whole financially civilized world.

10. As you know, none of these things happened. We are doing very well indeed. I will not trot out the usual figures to prove it. But believe me, we have turned around and we are much better off than those who religiously believe in the floating rate as the only way to ensure sound finances for a country.

11. Why did we go against the current financial orthodoxy? Well, when the great minds gathered at Bretton Woods, they concluded that the best thing for a world which had had its economy shot to pieces by World War II was to have a fixed exchange rate. The U.S. dollar was to be worth one-thirty-fifth an ounce of gold, and the rest of the world's currencies would be pegged to this one-thirty-fifth ounce U.S. dollar.

12. We all know that for two decades the world experienced the longest sustained high economic growth on a fixed exchange rate. And the vanquished, Japan and Germany, grew the fastest of all. . . .

15. But all these were made possible by the fixed exchange rate of the Bretton Woods regime. The world's trade grew by leaps and bounds, and recovery from the disaster of World War II was more than complete. Indeed, the Bretton Woods fixed-exchange-rate system created a world more prosperous than ever before. Only those who stayed out of the system, namely the Eastern bloc failed to prosper.

Powerful Nations Reneged

16. The floating exchange rate is not a creature of Bretton Woods. It certainly was not the result of serious study, debate, and international agreement as was the fixed rate of Bretton Woods. The floating rate is the result of countries, powerful countries, renegeing on their undertakings in the Bretton Woods agreement.

17. The U.S. was involved in an intractable and costly war and abandoned the balanced budget. It was importing too much and the dollar was flooding Europe. It could no longer guarantee redeeming the dollar with one-thirty-fifth ounce of gold. Speculators moved in and sold the U.S. dollar

at below the guaranteed value. A market in Eurodollars was created.

18. In the end the U.S. accepted the de facto devaluation and went off the gold standard. It seems that the right place to fix the value of a currency is the market. The market would know just how much any currency is worth. What people seem to forget is that the market has never been perfect. Demands and supplies can be manipulated. And certainly with futures trading and short-selling, true values are less important to the market than fluctuating values. Static exchange rates may be good for business but are not profitable to currency speculators.

19. Whatever may be the arrangement and reasons for the floating rates it was not good for the world's economy. The cost of business went up because of the need to hedge. Even then considerable losses could be sustained. Revaluation and devaluation affect the economic performance of countries. If the oil price goes up, then devalue the dollar. The oil producers then increase their price again and poor countries with poor people suffered because they could not revalue their currencies against the U.S. dollar.

20. If there is a trade imbalance then devalue your currency, or better still gang up and revalue the currency of the country with the surplus in trade. In the case of Japan, the revaluation did not really reduce the Japanese trade surplus with the West, but it hurts the poor people in the poor countries who could no longer afford the cheap, high-quality Japanese goods.

21. Malaysia borrowed a lot of yen. It was worth just one Malaysian sen when we borrowed. The [Group of Seven 1985] Plaza Accord pushed up the yen to 2.5 Malaysian sen. Suddenly, to pay our yen loans we had to find 250% more Malaysian ringgit. Through no fault of ours we became a bigger debtor than we had planned to be.

22. But who cares about us, about poor countries and poor people? They are not fit to sit at the same table with the rich—the G-7. If solving the trade problems of the G-7 results in the poor becoming poorer, it is just too bad. Marie Antoinette would have said, let them eat cake if they have no bread. If they also have no cake, that is really their fault; they are corrupt, incompetent, etc., etc.

'If the Result Is Bad, the System Is Bad'

23. You must forgive Malaysians if we don't think much of the floating exchange rate, if we believe that fixed exchange rates are better. History has demonstrated how the fixed exchange rates of the Bretton Woods regime had enabled the world to recover from the trauma of World War II. On the other hand, the floating exchange rate had stopped the two decades of post-war growth. Malaysia, too, benefitted from the fixed exchange rate and, as you know, we suffered grievously from the manipulation of the rogue currency traders of the floating rate regime.

24. We were never consulted about the floating, we entered into no international agreement to always stick to floating. Others renege on their undertakings. Why can't we?

25. Malaysia is interested in results not systems. No matter how good a system is, if it delivers a bad result we are not going to stick to it. Call us heretics if you like. We are willing to be called stupid ignorami who cannot understand herd instincts. But for us, if the result is bad then we must assume the system is bad and we will throw it out.

26. And so our exchange rate control and the regulation of short-term capital flows were instituted. And as I said, Malaysia is doing nicely, thank you.

27. But the point I would like to make is that we must learn from the lessons of history and we must avoid the mistakes of the past. What is the lesson of the past? To the point of being boring, may I repeat that all the systems devised by man in order to create a better society are imperfect. And they become more imperfect because clever people keep on tampering with them, embellishing them and making them sacred so that you may not question them even when they fail to deliver.

28. We must learn not to be too fanatical about economic theories as much as we should not be fanatical about interpretations of religion. We should be prepared to examine them and their performance. And certainly if the results are not what were promised, we should be ready to jettison them. We cannot wait too long. Look what happened to the Communist countries. They saw the bad results early, but since the theory was good, uphold the theory and forget the results. By the time they came to their senses, the damage was practically irreparable.

'Democracy' and Globalization

29. We must learn not to be fanatical especially now, now that the Information Age has descended on us. We talk now of globalization, the borderless world. We talk of deregulation, liberalization, and transparency. We talk of human rights and of democracy. These are the great ideas whose time have come. We must all accept them. The great democrats who believe in freedom and human rights tell us that if we don't accept them, then we will face sanction. Our people will be starved to death. So don't play with these democrats. Accept democracy and human rights or you will know how we democrats will take away your rights and your freedom of self-determination by force. Somehow I think there is something not quite logical with this way of propagating democracy and human rights. . . .

32. The mega corporations and mega banks which are getting ever bigger through repeated mergers will move into every country as soon as the WTO forces open the markets. The small and the inefficient in these countries will be wiped out. The need for manpower, particularly unskilled manpower, will disappear. . . .

34. As we all know, the great plantation owners in the banana republics practically own the countries they invest in. They determine the politics of the country. In other words, when a foreign company is richer than the government of the country they invest in, the country becomes a fief of the company, existing only to enrich the company.

35. When the mega corporations, already more wealthy and more influential than the developing countries, move in to take over the economy of these countries, will they not control also the political governance of these countries? Can we consider these countries as being independent anymore? What if the powerful countries where these corporations are based make use of the power of these corporations to hegemonize, to colonialize by another name. The people and the resources will then belong to the foreigners. The last time the foreigners wielded this kind of power they exploited the people and the countries. Will they not do it once again? . . .

40. So look at the gift horse in the teeth. Reject them if they are even slightly defective. Don't be afraid to send them back and ask for compensation if you find them not up to standard or defective.

A Regional Forum

41. We Asians should begin with the International Financial Regime. If they don't accept our suggestions or reform, then throw the whole thing back to them. Since they have ganged up on us, we should at least form our own forum, the East Asian Economic Caucus (EAEC), so we may at least discuss with each other and find out what kind of a deal we are getting and how to protect ourselves.

42. Asia's future depends on Asians. We can make it great. We can even make the 21st Century the Asian Century—although I will not recommend it. We should make this century the century of the world, the century of worldwide prosperity. Asia can even contribute and be the engine of growth, pulling along with it Africa, Latin America, and the former Eastern bloc countries.

43. But Asia must assert itself. It must not just follow. It must work together with Europe and America. It must give voice to its views. It must demand respect even as it respects others. Asia is old in experience and it has shown that it can master everything that is modern.

44. Provided that Asia is prepared to do this, the future of Asia will be bright. There will be great countries in Asia again. Asian inventiveness, Asian industries, Asian management skills, and Asian governance will provide the models for the world. We will not dominate it, but we certainly will not be bullied. Indeed, Asia can be an equal partner with the other groupings in the world, the European Union and NAFTA [North American Free Trade Agreement]. This is a possible future scenario for Asia, but it is not going to be if we just passively wait for it to happen.