Malaysia battles the IMF on national, international fronts

by Michael O. Billington

The political leadership in the small but strategically critical Southeast Asian nation of Malaysia has apparently taken to heart the words of the great "Poet of Freedom," Germany's Friedrich Schiller, that one must be, at the same time, "a patriot of one's nation, and a citizen of the world." Faced with continuing speculative attacks on its currency and equity markets, attempts by foreign intelligence agencies and their press outlets to undermine political unity, and the devastating effects of the on-rushing world depression, Malaysia's government has escalated its international counter-offensive against the institution at the center of the attack—the International Monetary Fund (IMF)—while also introducing an emergency domestic economic policy for survival without submitting to the killer conditionalities demanded by the IMF in exchange for debt relief. The IMF and its minions are very unhappy about this Malaysian counter-offensive, and have responded with new outrageous attacks on Malaysia's economic sovereignty.

From the beginning of the crisis in the summer of 1997, Prime Minister Dr. Mahathir bin Mohamad has taken the lead among world leaders in telling the truth about the collapse, a truth familiar to readers of *EIR,* that the unregulated hedge-fund speculators, such as George Soros, intentionally brought down the Asian currencies, while the IMF has led the speculative looting of the ailing Asian economies under the guise of "bailouts." Now, as world leaders on every continent are increasingly forced to admit that Mahathir was right, the Malaysian leaders, speaking not only for themselves, but for the entire region, and, in fact, for the world, are taking a more forceful stand, demanding international action to transform or replace the world monetary system.

Most important in this regard is the role of Deputy Prime Minister and Finance Minister Anwar Ibrahim. Anwar has, until recently, taken a more restrained public position than Prime Minister Mahathir. He has been the subject of an endless stream of articles in the Western press over the past year, aimed at dividing him from the Prime Minister, portraying him as more reasonable and more sympathetic to IMF globalization and deregulation. All the more shocking then, was Anwar's press conference of July 20 in Washington, when he not only denounced the IMF policies, but demanded a change in those policies:

"We wish to reiterate the point expressed by many of our colleagues in the region," Anwar told the Washington press corps, "that we are not satisfied with the manner in which the IMF imposes rigid conditions." He singled out Indonesia as a situation in which IMF policy has severely aggravated the economic and political crisis.

Anwar has recently assumed the chairmanship of the IMF-World Bank Development Committee, and demonstrated that he intends to assert the authority of that position. "I certainly would expect change in the direction and manner in which the IMF deals with the problem," he said. He also asserted that the problem would be taken up seriously at the next general meetings of the IMF and World Bank. When asked about the mounting criticism of the IMF around the world, Anwar responded that there was a role for the IMF "for the present," and made reference to the call for a Bretton Woods-style arrangement for a new "international architecture of the financial system," a call widely known as the proposal introduced by *EIR* Founder Lyndon LaRouche.

Keep the IMF out

Of the Asian nations hardest hit by the crisis, Malaysia is the only one which has not submitted itself to the brutal conditionalities demanded by the IMF in exchange for emergency loans. However, Malaysia nonetheless has made efforts to implement, on its own, at least some of the "expert advice" handed out by the IMF.

On July 23, however, the government released a new, comprehensive domestic program, the "National Economic Recovery Plan," prepared by the National Economic Action Council under the direction of Special Functions Minister Tun Daim Zainuddin. Daim, a longtime friend and adviser to Mahathir, had been called back into government service to head the government's efforts to meet the economic emergency.

The IMF, said Daim, has "failed, and failed miserably." The Recovery Plan is a dramatic shift away from orthodox monetarist prescriptions peddled by the IMF. However, most

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Malaysian Deputy Prime Minister and Finance Minister Anwar Ibrahim (right) inspects the troops with U.S. Secretary of Defense William Cohen (left). Anwar demanded a change in International Monetary Fund policies during a July visit to Washington. "We are not satisfied with the manner in which the IMF imposes rigid conditions," he said, making clear that the Malaysian leadership is united in its fight for sane economic policies.

importantly, the plan makes abundantly clear that neither Malaysia, nor any other *single* nation, can recover, or even survive, if the IMF-dominated world financial system is allowed to continue to drag the world economy into Hell. The opening section of the plan states that despite "bold measures," there are several "risks which could still derail all projections." Among these risks are: continuation of "the regional economic and financial crisis in the medium term"; a devaluation of the Chinese yuan, or a further depreciation of the Japanese yen; or, "a large market correction of the Dow Jones."

In addition, the Recovery Plan repeatedly identifies the global causes of the crisis, which is essential if the necessary defensive measures are to be implemented. "The early 1990s," the plan reports, "saw the dramatic increase in the flows of private capital from the industrial countries to the emerging economies. . . . The daily currency turnover in the foreign exchange market in 1995 was some $1.2 trillion, compared with an average of $190 billion a decade ago." The financial capital flow was thus almost entirely speculative in nature rather than direct investment in real industry or infrastructure, leading to "asset price inflation, including in real estate and equity markets." At that point, the currency fund and hedge fund traders attacked the Asian currencies, causing "the sudden withdrawal of hot money," with "devastating effects on jobs, business, and people."

The Recovery Plan then presents an extensive package of policies, interspersed with calls for a new international system as inseparable from any domestic efforts. The plan includes:

1. *Adequate credit to productive activities.* To achieve this, interest rates will be held down to at least the current rate of 11-12%.

2. *Lending into arrears,* or bailouts, for certain companies which are threatened with bankruptcy due to, as of Aug. 11, the 40.7% collapse of the Malaysian ringgit since July 1997, the 72.8% collapse of the Malaysian stock market (KLSE) over the same period, and the severe credit crunch. The decision as to which companies will receive this support "must be guided by national interest [or] strategic interest." National interests include banks, education and some infrastructure facilities, while auto, aerospace, and shipping are examples of strategic interests. Only those firms that would be viable if not for the credit and currency crisis would qualify.

3. "*Infrastructure projects* should continue to provide a catalyst for sustaining a reasonable rate of economic growth." Mahathir singled out this aspect of the program, announcing that the government will "implement infrastructural projects on a large scale to stimulate the economy toward recovery . . . and spin-offs to stimulate other industries." The emphasis will be on ports, airports, and rail and road development. The national oil company, Petronas, announced simultaneously

that it will undertake a new rail project to facilitate industrial development needs, the first new large project since the breakdown began last year.

4. *Exchange controls,* including moves toward establishing an "exchange rate band against a trade-weighted basket of currencies." Here, especially, the Action Council emphasizes the necessity for international action, by calling for "work toward an international agreement for more transparency and disclosure in the operations of investment funds like pension funds, currency funds, and hedge funds," and efforts to "strengthen international surveillance for *an orderly international monetary system that is based on sound banking and financial systems*."

The report also recommends reducing the nation's dependency on the dollar, by conducting trade in local currencies and building up reserves of different currencies. It proposes that "a study should be conducted on the feasibility and prerequisites of adopting an ASEAN [Association of Southeast Asian Nations] currency at a future date."

5. *Recapitalizing troubled banks* through the issue of government bonds, to be purchased by the large government industries (such as Petronas), with the proceeds loaned to the banks at long-term, low-interest rates. The explicitly stated purpose of this approach is that "it would make foreign acquisition of domestic banks unnecessary."

The Recovery Plan also includes tax cuts, price controls, and other means for assuring that essential commodities remain available to all. It makes some concessions to "international investors," including eliminating the limits on foreign ownership of certain productive industries, if purchased by Dec. 31, 1999.

The IMF reacts

Essential to the program is the plan to raise several billion dollars through the issuance of bonds on the international markets. Special Functions Minister Daim and Deputy Prime Minister and Finance Minister Anwar were prepared to depart on a "roadshow" around the world to secure these bond sales. They were confident that they would be successful, since, as Daim pointed out, Malaysia had not been to the international market for the last eight years, and it was one of the few A-rated countries in the region.

Then, only one day after the release of the Recovery Plan, and two days before the "roadshow" was to begin, Moody's Investor Services and Standard & Poor's, U.S.-based rating agencies which both function as hit-squads for the IMF and market speculators, suddenly downgraded Malaysia's sovereign credit rating by an astonishing *three notches,* reducing the rating overnight from single A-2 to Baa-2, only two steps above junk bond status. Daim and Anwar were forced to cancel their international tour, since the rating agencies' treachery would result in usurious rates on any bond offerings, a load beyond the means of the Malaysian economy to bear. On Aug. 6, a third U.S. rating agency, the New York-based Thomson BankWatch, also downgraded Malaysia's sovereign debt, and the senior debt and subordinated debt ratings for the country's number-one bank, Malayan Banking Bhd.

Daim has suggested that steps could be taken to garner the internal resources of the country to meet at least some of the needs. But one must ask: What transpired in the *real economy* of Malaysia in a 24-hour period that could justify the drastic action by Moody's? This was the same question asked last year by Lyndon LaRouche, following the nearly

The real, and fake, opponents of the IMF

In February 1997, Lyndon LaRouche called for a war of annihilation against the International Monetary Fund, warning that nothing short of a new world monetary system could prevent the descent into a global depression worse than any seen since the collapse of civilization worldwide in the 13th and 14th centuries. Now, rapidly growing numbers of political leaders and economic officials are beginning to understand the truth of that dire forecast, and to openly oppose the IMF's destructive role in the world. As a result, several spokesmen for the financial oligarchy, which created the on-rushing global depression in the first place, are staking a claim as spokesmen *against* the IMF, with the intention of diluting and sabotaging the honest opposition to the IMF. These charlatans claim that the IMF should have left the collapsing economies of the world alone, to let the "free market" run its course. One of the most public proponents of this phony opposition to the IMF is the notorious Jeffrey Sachs, director of the Harvard Institute for International Development, who, in league with mega-speculator George Soros, designed the "shock therapy" imposed upon Russia and other former East bloc nations, creating economic and social devastation.

On July 27, the Singapore *Straits Times* ran a "Crisis Special," with essays by various opponents of the IMF. The *Times* reported that six months earlier, it had asked "if the IMF was the amputating god, or angel of mercy," and that the subsequent period had proven that the answer is the former—the amputating god! Two essays, one by Sachs, with the collaboration of fellow Harvard professor

instantaneous plunge of the Asian currencies by 35% to 80%. Had anything in the *real economy* changed, or was it purely manipulation and financial warfare by the international speculators and financial institutions?

It is of note, in this regard, that the chief economist at the World Bank, Dr. Joseph Stiglitz, who worked in the first Clinton administration and has been an outspoken critic of the IMF policies of the past year, wrote in the *Straits Times* of Singapore on July 27: "The major credit ratings agencies did not lower their ratings of the East Asian countries until after the crisis struck. If the problems in East Asia are so obvious in retrospect, why did developed country banks, or their presumably sophisticated regulators, not seem to notice them?" (See box.)

Malaysia will continue its international campaign to recruit other nations to the necessity of forging a new world monetary system, and proceed with whatever domestic policies are necessary to survive in the interim. No nation can afford to simply wait to see if Malaysia's domestic program succeeds or fails, but must join now in demanding a New Bretton Woods conference of sovereign nations to replace the bankrupt, and criminal, IMF.

Dr. Steven Radelet, and another by World Bank chief economist Dr. Joseph Stiglitz, counterpose clearly the ulterior, colonial purpose of Sachs's "opposition," to one of the more serious opponents of the failed policies of the IMF, Stiglitz.

Stiglitz, who served in the first Clinton administration before going to the World Bank, states first that the crisis in East Asia was "not the result of standard macro-economic mismanagement," that their "debt was relatively modest compared with the size of their economies and domestic savings rates. . . . These were not profligate countries." The problem arose from the excessive short-term dollar debt. The problem was not "government misdirection," but the lack of regulation over the speculative money flows. Stiglitz states clearly: "It is not just domestic borrowers who bear the responsibility for these problems, but also foreign lenders." He also castigates the foreign institutions and rating agencies which now "blame the corrupt and nepotistic East Asian firms that misallocated their foreign borrowings," and asks: "If the problems in East Asia are so obvious in retrospect, why did developed country banks, or their presumably sophisticated regulators, not seem to notice them?"

Stiglitz's proposals, although totally lacking in any suggestion of the most necessary step—the replacement of the IMF—do include relatively cogent and necessary steps for survival for the affected nations. The similarity to several of the main points in Malaysia's new National Economic Recovery Plan (see accompanying article) is probably not accidental. He calls for an "expansionary macro-economic stance"; for "quick and decisive actions to strengthen the financial system . . . in a manner that continues credit to exporting firms" based on clear information on the viability of firms, with "due attention to moral hazard concerns"; for "credit to those sectors most adversely affected or which can jump-start the economy," including agriculture, medium-sized enterprises, and exporters. He insists that companies should be saved from bankruptcy when their debt problem is due only to "large devaluations, increases in interest rates, and falls in demand."

The Sachs maniac

Compare this serious, if flawed, approach to that of the devious Sachs. His essay, "Why Not Let the Banks Own the Debtor Firms?," is more radical in his denunciations of the IMF's "contractionary policies" than is Stiglitz. But what are his recommendations? Like the snake-oil salesman, he proposes three easy steps to a turnaround.

First, let the banks (foreign and domestic) holding corporate debts turn the "debt into equity," i.e., let the banks assume ownership of the nation's corporate structures.

Second, "accelerated re-capitalizaation of Asia's banking sector," which, in Sachs-speak, means accelerating the rapidly expanding takeover of the Asian banking system by British, American, European, and Canadian banking conglomerates, as happened in Ibero-America after the 1994 Mexican crisis, and is well under way in Asia.

Third, with the new colonization of corporate Asia thus complete, Sachs proposes "easier monetary policies," but, of course, *with no controls over his friends in the hedge fund racket*. It is widely understood that simply lowering interest rates, without establishing currency controls to hold off the speculators, would lead immediately to further drastic and deadly declines in the Asian currencies. In fact, Sachs welcomes this speculative windfall to the vultures in the currency markets. "Not every goal can be achieved," he proclaims. "The yen is likely to depreciate further, for example; the Chinese yuan is also likely to depreciate at some point in the future; and Hong Kong will suffer more from its fixed peg to the dollar." British designs for the demise of China and of the crucial U.S.-China alliance stand clearly exposed in Sachs's vision, as well as his colonial intent toward Southeast Asia, regardless of his apparent protestations against his friends and mentors at the IMF.—*Michael O. Billington.*