

mative action, the active government intervention in the distribution of economic wealth between races, is unacceptable. The economy [according to the IMF] must be completely free of government interference, and furthermore it must be open to total and unrestricted foreign participation.

The result would be to deprive the indigenous people in particular of their share in the business sector and the wealth accruing from it. The Chinese, on the other hand, might still retain or even enhance their share.

The IMF solution is therefore not for Malaysia. We have to devise our own solution so that the government can continue with the eradication of poverty among all races and elimination of the identification of race with economic function—the so-called New Economic Policy which had so successfully created a stable and prosperous Malaysia.

Resuscitating the economy

To restore the economy in the face of attacks by currency traders and share-market manipulators, the government set up the National Economic Action Council (NEAC). The NEAC studied the impact of the devaluation on the economy and came up with numerous proposals on resuscitating the economy. The banking and corporate sectors had to be reformed so as to be more resilient. Imports were curtailed while exports were stimulated. Consumption of imported sugar, milk, and wheat flour was reduced. Price control was fully enforced to prevent undue inflation. Retail prices of food and goods were monitored closely so as to ensure no profiteering takes place. The retrenchment and unemployment figures were scrutinized for sign of recession.

Statutory reserves of banks, which stood at 13%, were reduced by 4% to improve banking liquidity. Hire-purchase terms were also improved. Property, vehicles, and retail sales were boosted through forgoing taxes during government-endorsed sales carnivals. Studies were made to improve food production, as the biggest import item for the country is food.

The performance of the stock market and individual companies were also studied so as to know the effect of the downturn on them and to help them if necessary. An asset management company was set up to buy up non-performing loans, in order to relieve the banks and to help the companies to turn around. A company was also set up to refinance banks.

Mergers of banks and of stock-broking companies were encouraged.

Sources of funds within the country were identified and assessed so as to reduce the need to raise funds abroad. Malaysia has one of the highest savings rates in the world, i.e., 40%. This money could, of course, be put to better use so as to maximize returns. In the end, it was found that domestic funds were sufficient to finance much of the recovery process and borrowing abroad became less urgent.

Many more studies and actions were undertaken so as to minimize the impact of currency devaluation and the fall in

share prices. However, despite all that was done or could be done, the devaluation of the currency and the stock market's near collapse placed the country in a very difficult position. In all, the country lost about \$50 billion in terms of purchasing power of imports and \$150 billion in market capitalization. If the currency devalued further, the economy could be so weakened that we would have to turn to the IMF and accept its terms.

A solution had to be found which would protect the country from the rapacious currency traders and stock-market manipulators. Malaysia actually had some experience in cur-

Dr. Mahathir warns West on East Timor

Malaysian Prime Minister Datuk Seri Dr. Mahathir bin Mohamad was the featured guest on PBS-TV's "Charlie Rose Show" interview program, on Sept. 27, 1999, in New York City. The following exchange on the crisis in East Timor and how the United States is viewed from abroad concluded the broadcast. However, in his monthly column in the Japanese newspaper Mainichi Shimbun, on Oct. 11, Dr. Mahathir stated: "It is well known that the West would like to see Indonesia broken into smaller countries. . . . And so, when the currency crisis plunged Indonesia into political and economic turmoil and [former President] Suharto was overthrown, the West seized the opportunity to once again break up Indonesia. . . . The main beneficiary of a broken-up Indonesia will be Australia. It is not surprising that Australian forces have moved into East Timor first. . . . The need to protect East Timor will be permanent, and Australia is ready to provide this protection. It may become Australia's Vietnam."

Here are excerpts from the Charlie Rose interview:

Rose: East Timor.

Dr. Mahathir: Yes.

Rose: Are you pleased to [see] UN troops there? . . .

Dr. Mahathir: Well, I think the whole thing has been very badly handled.

Rose: By? Indonesians?

Dr. Mahathir: No, I think people want to see that East Timor will not be integrated with Indonesia. They have always been agitating and urging East Timorese to seek independence from Indonesia. And the moment they found Indonesia is facing a lot of problems, like economic prob-

rency trading. In the early 1980s, the Central Bank traded extensively in the currencies of Europe, America, and Japan. It was pure speculation, and the funds available were not adequate to move the market. In the end, Malaysia lost a lot of money and decided to get out of the business. But the knowledge gained was useful nevertheless.

Reassert sovereignty over the currency

Malaysia studied the mechanism of currency trading thoroughly. It became obvious that the free convertibility of the local currency, the ringgit, which facilitates trade, is also the

Achilles' heel which exposed us to the attacks of currency traders. We have to stop the free convertibility of the ringgit and to reassert the sovereignty of the government over our currency.

Apparently no cash is involved in currency trading. When money is sold or bought, the figures on the bank's computers move and the buyer gets the figures representing the amount of money credited to him. Since the money is only legal tender in the issuing country, the actual money is held in banks in the issuing country. The foreign bank would instruct the domestic bank to credit the money to the buyer's account. Clearly the

lems, and needed help, that's when the pressure is brought upon Indonesia to hold the referendum.

I think it is the wrong time to hold a referendum.

Rose: Why? . . . What's wrong with a democratic vote on the part of the people from East Timor?

Dr. Mahathir: You see, for 25 years, those people are not complaining very much. Indonesia is pouring a lot of money into East Timor. Development in East Timor during Indonesian time is far greater than during the Portuguese time, and many of the people in East Timor have accepted the integration.

Rose: Well, obviously—Evidently not, if you look at the results of the referendum.

Dr. Mahathir: Well, you know, when you have an election, for example, you campaign. Actually, people were campaigning against—urging the Timorese to reject integration. Foreigners were telling them, "Look, if you become independent, we'll help you. We'll give you protection. We'll give you money and, *et cetera*."

Naturally, I mean, the East Timorese are going to vote for independence.

Rose: So, you oppose the referendum, and you think they would have been better off if they had stayed . . . as part of Indonesia, even though the United Nations never recognized that annexation?

Dr. Mahathir: Well, there have been annexations of other territories and the United Nations said nothing about it. I wouldn't say which territory because I might hurt other countries who are friends of ours.

But, in this case, let's allow Indonesia to make its liberal democracy work first. . . . They are in trouble. At that time, you apply pressure on them. It's not fair, because they are not in a position to even campaign among the Timorese to vote for integration.

Rose: It wasn't so much the government that they seemed to be worried about. It was, in fact, the military.

Dr. Mahathir: The military has contributed toward Indonesia's stability. Once you remember that these are

new countries—we have become independent only about 50 years or so. And our idea of how to run a democratic government is not the same as yours.

You have had more than 200 years. Other countries in Europe have [had] even a longer period. When you first became independent, you were not very nice to the slaves, for example.

Rose: That's true.

Dr. Mahathir: So, you must allow Indonesia time to practice democracy and show the Timorese that they have—they can gain from being with Indonesia.

Rose: There was much talk about America as the democratic ideal. Do you believe that in terms of the nations of Asia we still stand for something special in the world?

Dr. Mahathir: Well, we felt like that at the end of the last war.

Rose: At the end of World War II?

Dr. Mahathir: Yes, at the end of World War II we looked to America as our savior. But, since then, you have changed. You don't any longer feel any understanding of the problems faced by new countries like us.

Rose: We're insensitive to your culture and to understanding—

Dr. Mahathir: Yes, I think that is true. You don't understand us. In fact, Americans usually look inside, rather than outside and make comparisons with America. We cannot be compared to America. You are older than we are. We have just become independent. . . .

You know, under the colonial rule there was no democracy. Everything was determined by Whitehall in London. We had no idea what democracy was like, and yet we chose democracy because we thought it is a good system. But it's not easy, having accepted it, it is not easy to make it work.

A lot of countries fail simply because they don't understand the intricacies, the weaknesses, the tendency toward destabilization that comes along with democracy. So, you must give people time to manage these things.