Mahathir and the Markets: Globalisation and the Pursuit of Economic Autonomy in Malaysia

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Of the countries affected by the recent economic crisis in East Asia, Malaysia has attracted particular attention. Malaysian policymakers have consistently flouted conventional wisdom about the most appropriate ways of managing the crisis, in particular, and national economies, more generally, in an era characterised by increased international integration, both economic and political. Not only has Malaysia, under the leadership of its Prime Minister, Datuk Seri Dr. Mahathir Mohamad, refused to adhere to the neoliberal orthodoxy of liberalisation and financial opening, but the Malaysian government embarked upon a systematic counter-offensive designed to mitigate the influence of external economic forces and retain a degree of national policy autonomy.

The Malaysian experience begs a number of critical questions that have the potential to tell us much about the contingent factors that continue to shape national policy in an era of globalisation and about the limits of the globalisation process: why would a comparatively small economy like Malaysia risk incurring the wrath of influential external actors like the International Monetary Fund (IMF) or the increasingly powerful financial markets? Even if the political will exists to develop policies designed to confer a degree of domestic insulation, how feasible is this in the contemporary global political economy? What does the Malaysian case tell us about the fate of East Asian "*dirigiste* capitalism" more generally?

To begin to answer these questions, it is vital to separate the contingent from the universal. Consequently, the first part of this paper briefly sketches the qualities of the globalisation phenomenon before considering their relevance in a Malaysian context. The intention here is to demonstrate that even if it is possible to agree on a general conceptualisation of globalisation, the Malaysian exemplar demonstrates that it is realised in different ways – as the second part of the paper illustrates. The central contention I develop is that, although the terrain upon which national policymakers must operate

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has been transformed by ubiquitous political and economic processes, it is still possible to respond to such apparently universal imperatives in distinctive, not to say idiosyncratic, ways. While the motivations underpinning the Malaysian government's policy initiatives may be questionable and informed by a parochial political calculus, nevertheless, the very fact that such responses are possible at all is of major long-term significance in the context of debates about the future of economic development generally. Moreover, despite his routine vilification in much of the Western media and legitimate concerns about the authoritarian nature of his leadership, Mahathir identifies a number of key issues about the relationship between states and markets, and about the ability of individual countries to pursue distinctive national policies, that have a relevance transcending the Malaysian case.

The Contingent and the Universal

Before considering how and why Malaysian authorities responded in the way they did to the globalisation phenomenon in general and the Asian crisis in particular, it is necessary briefly to outline the more pertinent factors associated with globalisation, before detailing the particular Malaysian circumstances through which such processes were refracted. Consequently, the first part of this section will sketch the transformation of the international political economy before considering Malaysia's integration into it, and the unique social and political circumstances through which processes of globalisation have been filtered.

Globalisation

The notion of globalisation has rapidly become an established part of academic discourse and popular commentary in recent decades. Its very ubiquity is indicative of the fact that it signifies something alternative perspectives lack. In other words, there is something about the contemporary era – particularly the way complex economic and, to a lesser extent, political processes are organised – that distinguishes it from earlier periods, and which the notion of globalisation seems to capture. Although there is broad agreement that dramatic changes have occurred in the international system, the extent and significance of such developments are much more contentious.

As well as providing a judicious overview of debates that lie beyond the scope of this essay, Held, et al., provide their own definition of globalisation which captures its most important aspects:

> A process (or set of processes) which embodies a transformation in the spatial organisation of social relations and transactions – assessed in terms of their extensity, intensity, velocity and impact – generating

> transcontinental or interregional flows and networks of activity, interaction, and the exercise of power.[1]

Before we can assess the impact of such processes on Malaysia, however, it is necessary to spell out more precisely the sorts of reorganisations and flows that are involved here. For the purposes of this paper, there are three critical aspects of globalisation that need to be considered: the expansion and liberalisation of the financial sector; the international reorganisation of "real" economic activity; and the transnationalisation of structures of governance and the erosion of state authority.

Although Malaysia in general and Mahathir in particular have been primarily associated with the financial aspects of globalisation, it should be remembered that it was the reorganisation of underlying "real" economic activity across national borders that ultimately helped accelerate the economic development of countries like Malaysia and integrate them more fully into the global economy. The emergence of a "new international division of labour" in the 1960s and 1970s and the spatial reconfiguration of economic activity via the disaggregation of production processes allowed companies to relocate their activities internationally and, in East Asia in particular, to take advantage of cheap labour or generous government incentives. The success of export-oriented strategies of rapid industrialisation in countries like Malaysia were especially dependent on foreign investment and access to important markets in North America and Europe, which the general reconfiguration of the international-political economy opened up.[2]

Globalisation is necessarily a complex, multi-faceted phenomenon. Not only is it necessary to unpack its constituent elements, but it is important to recognise that some of the "flows" described above are potentially much more welcome and beneficial than others. As we shall see, this is something Mahathir has clearly recognised, and this helps explain the vehemence of his attack on another critical element of globalisation: the growing power of financial markets.

The integration of international financial markets is arguably the most complete realisation of the globalisation process. The ease and speed with which capital flows can traverse national borders make them emblematic of the new international order. The story of the growth and ubiquitous influence of financial markets, and the critically important role that technological and also *political* forces played in their rise, is well enough known to need no repetition here.[3] However, a number of points merit emphasis as they help

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[1] David Held, et al. *Global Transformations* (Stanford: Stanford University Press, 1999).

[2] For a general overview of these processes, see Peter Dicken, *Global Shift: The Internationalization of Economic Activity* (London: Paul Chapman, 1992). In the Malaysian case, see K. S. Jomo, *Southeast Asia's Misunderstood Miracle: Industry Policy and Economic Development in Thailand, Malaysia, and Indonesia* (Boulder: Westview Press, 1997).

[3] See for example, Susan Strange, *Casino Capitalism* (Oxford: Basil Blackwell, 1986); and Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994).

to explain the hostility that Mahathir has expressed toward them. The principal factor to stress here is the sheer scale of financial movements relative to national economies, especially comparatively small ones like Malaysia's. By some estimates, capital flows throughout the world's financial markets have reached some US$2 trillion per day,[4] compared to Malaysia's annual GDP of US$98 billion in 1997. Compounding the threat posed by such massive flows of capital – from the perspective of national economic managers, at least – is the fact that up to ninety-seven percent of such inflows may be speculative, highly liquid and very different from the long-term direct investment associated with the expansion and transformation of real productive activity. Although the reasons for the recent crisis in Asia are complex, few would dispute that financial markets played a critical role that was amplified by their sheer magnitude. Indeed, it is worth noting that Malaysia's imposition of currency controls has received significant support – albeit qualified – from respected orthodox economists like Paul Krugman.[5]

From the perspective of East Asian governments, which have traditionally used forms of tightly controlled, directed credit to guide the process of economic development, the opening up of what were hitherto relatively insulated domestic financial sectors is a potentially risky venture. While this may offer domestic borrowers the chance to access large and possibly cheaper sources of foreign capital, it may come at the cost of reduced control over the economy and risk greater exposure to precisely the sorts of destabilising financial flows that precipitated the Asian crisis. Importantly, financial sector liberalisation has often occurred *despite*, rather than because of, the efforts of national policymakers in East Asia. Even in Japan, the original home of East Asian-style state-led development, financial sector liberalisation occurred as a consequence of a complex mix of domestic and external forces, in which the shifting preferences of domestic companies and banks were combined with external pressures, especially emanating from the U.S., to force further liberalisation despite resistance from government authorities. Because economic liberalisation – especially in the financial sector – is so fundamentally threatening to East Asian patterns of economic organisation, regional critics such as Mahathir have been able to portray it as part of a larger assault by "the West" designed to keep "Asia" in a subordinate position:

Why, it must be asked, should the Western powers and investors conspire to topple Asia? The possible motives are not difficult to imagine. Considering the speed at which Asia was growing, the region appeared to be on its way to dominate the world economically. Whether or not Asia would eventually have come to dominate the region is irrelevant; the region was perceived as

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[4] B. Lietaer, "Global Currency Speculation and Its Implications," *Third World Resurgence* vol. 87/88 (1997), pp. 15-17.

[5] Paul Krugman, "What is Plan B?" *Fortune,* 7 September 1998, available at www.fortune.com/fortune/investor/1998. It is also worth noting that China received near universal praise for *not* allowing its currency to be freely traded, thus stopping the crisis from spreading even further than it did.

a threat to Western hegemony...I do not believe there was a conspiracy against the East Asian nations, at least not in the conventional sense of the word. But obviously their troubles have afforded an opportunity to force open their economies and allow domination by more powerful nations.[6]

In this reading of globalisation, the rise of financial markets is not seen simply as part of a universal process of secular change driven by technological innovation and economic restructuring, but as a process in which specific national or even regional interests are being served. Rather than seeing the erosion of state sovereignty and the emergence of powerful transnational or inter-governmental organisations like the IMF, the World Bank or the Bank of International Settlements (BIS) as simply an expression of a third, *political* aspect of globalisation – a general reconfiguration of government authority and practice in response to ubiquitous imperatives – Mahathir sees such developments as part of a process that not only originated in the West, but which actively favours particular interests there. In other words, what we are witnessing is not a ubiquitous process in which all states are seeing a "leakage" of power to markets, but rather a hegemonic application of neo-colonial political power designed to shore up "Western" interests.

Clearly, there are a number of problems with such broad-brush depictions of either "Asia" or "the West." Yet, despite the imprecision, it is important to recognise that not only do Mahathir's arguments often find a receptive audience in Malaysia, but they also highlight issues that have a much broader relevance. Before exploring the latter's implications and the distinctive response they have engendered in Malaysia, the domestic basis of Mahathir's policies, perspectives and support needs to be considered in more detail.

Contingent Malaysian Factors

Historically, Malaysia's distinctive ethnic mix has shaped and constrained politics and public policy. Malaysia's population is composed of an, at times, volatile mix of indigenous Malays (or Bumiputeras), a substantial Chinese community, and a smaller group of Indians. When Malaysia gained independence from Britain in 1957, the size of the Malay and non-Malay populations were roughly balanced. By 1990, the Bumiputera share was approaching 60 percent, the Chinese share had fallen to around 30 percent and the Indian to about 10 percent. Although ethnically based politics and economic divisions are less important than they once were, it is important to remember that Mahathir first came to prominence by articulating an indigenous response to what he called the "Malay dilemma,"[7] and that the new indigenous Malay capitalist class is largely a creation of the state.

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[6] M. Mahathir, *A New Deal for Asia* (Subang Jaya: Pelanduk Publications, 1999), pp. 60-61.

[7] M. Mahathir, *The Malay Dilemma* (Singapore: Times Books, 1998 [1970]). Mahathir argued that the cultural values of the Malays meant that they would be systematically dispossessed of their inheritance - especially when confronted by a Chinese community with a demonstrated capacity for business success - unless government intervened on their behalf.

This complex amalgam of racial and economic goals, and the way it has been mediated by Malaysia's ethnically divided political system, explains much about the genesis and spread of so-called "crony capitalism," and the sort of defensive economic policies that the Malaysian government has subsequently pursued. A major goal of the New Economic Policy (NEP) was to place thirty percent of share capital in Bumiputera hands by 1990. To achieve this, "trust agencies" were established by the government to accumulate shares on behalf of the Malay community, with the purported intention of redistributing them at some future date. Consequently, the public sector and state-owned enterprises expanded dramatically during the 1970s and early 1980s, establishing the basis for the fusion of government and business interests which is now so characteristic of the Malaysian political economy, and which has attracted such widespread criticism of East Asian forms of capitalism and business practices in the wake of the Asian economic crisis.

It is, however, important to make a number of comparative points that distinguish the Malaysian case and that highlight the contingent way in which processes of globalisation are realised. First, because Bumiputera capitalists are essentially a creation of the state, conventional distinctions between the political and economic spheres are simply not applicable. Malaysia's overarching politico-ethnic imperative – maintaining racial stability through the creation of a domestic capitalist class – has led to a fusion of political and economic interests. The principal instrument of Malay political power, the United Malays National Organisation (UMNO), is itself deeply involved in economic activity: the UMNO has created and controls a "vast conglomerate" of companies and corporate investments which include most sections of the economy.[8] Consequently, key individuals in both the UMNO political party and in the government have achieved considerable economic enrichment – primarily as a direct consequence of their political connections. The current minister of special functions and executive director of the National Economic Action Council (the body charged with developing a response to the crisis) has, for example, been a major beneficiary of Malaysia's positive discrimination toward Bumiputeras and the concomitant fusion of political and economic power. Gomez and Jomo have detailed how Daim Zainuddin's political position and connections have allowed him to develop extensive business interests and significant personal wealth. Indeed, they claim that the "ethnic cudgel" of Bumiputera advancement has enabled "influential Malay politicians and businessmen with close links to the UMNO" to systematically amass great personal wealth.[9]

While the exploitation of political connections for personal gain is hardly unique to Malaysia, let alone East Asia, there are aspects of the Malaysian

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[8] P. Searle, *The Riddle of Malaysian Capitalism* (St Leonard's: Allen & Unwin, 1999), p. 104.
[9] E.T. Gomez and K.S. Jomo, *Malaysia's Political Economy: Politics, Patronage and Profits* (Cambridge: Cambridge University Press, 1997), p. 53.

case that are distinctive and also contradictory. Malaysia does not fit easily into the generally laudatory depictions of "miraculous" East Asian development in which a relatively autonomous bureaucracy is understood to have guided the process of economic expansion. Not only is the elected government in Malaysia a far more important actor than is the case in countries like Japan, but Mahathir in particular has little sympathy for the bureaucracy and has systematically wound back its influence and independence.[10] Indeed, Mahathir has expressed highly ambivalent, yet interconnected, views of both the bureaucracy and market forces. On the one hand, Mahathir has been keen to exploit the dynamism of market forces to shake up the bureaucracy and Malay values. On the other hand, the mechanism that might transform Malay values – market forces – and help make the Bumiputeras more "authentic" capitalists and less dependent on either state assistance or politically strategic relationships with Chinese business people is precisely the force that Mahathir has so inveighed against on the world stage.[11]

In short, Mahathir seeks to exploit what he takes to be the beneficial, transformative effects of market forces without sacrificing government control or oversight. This contradictory position is explained by the intersection of politics and economics in Malaysia: much of the UMNO's appeal has been derived from what Crouch calls its "patronage-dispensing function."[12] The maintenance of the UMNO's dominant political position is still dependent on its ability to control and distribute economic resources – something which is threatened by the sort of wholesale reforms that have been advocated, and to some degree implemented, in countries like Indonesia. And yet Malaysia demonstrates that it is possible to respond to apparently universal forces in quite distinctive ways. For example, the sorts of privatisation measures which have become such a ubiquitous part of public policy throughout the world have, in a Malaysian context, become a vehicle for the consolidation of political and economic power for a privileged, predominantly Malay elite. As Searle observes, "whatever the economic arguments for privatisation, the *raison d'être* for the program in Malaysia has been primarily political."[13] In other words, when mediated throughout the filter of Malaysia's highly distinctive ethnic and political structures, even one of the hallmarks of globalisation – privatisation – and the supposed retreat of the state, is revealed to be very different from the prevailing stereotypical depiction.

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[10] M. Leigh, "Politics, Bureaucracy, and Business in Malaysia: Realigning the Eternal Triangle," in A. MacIntyre and K. Jayasuriya, eds., *The Dynamics of Economic Policy Reform in South-East Asia and the South-West Pacific* (Oxford: Oxford University Press, 1992), pp. 115-23.

[11] On Mahathir's attitudes to the bureaucracy and capitalism, see Khoo Boo Teik, *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamad* (Cambridge: Cambridge University Press, 1995).

[12] Harold Crouch, *Government and Society in Malaysia* (St Leonard's: Allen & Unwin, 1996), p. 37.

[13] Searle, *Malaysian Capitalism*, p. 95.

But it is important to recognise that privatisation policies, although given additional momentum by international fashions and pressures, are effectively realised within the confines of national economic spaces – however theoretically problematic and pragmatically porous such a conception may be. A number of other processes more directly associated with globalisation have provided even greater challenges for the leaders of all nations, but especially for smaller economies like Malaysia. It is the highly distinctive nature of the Malay leadership's response that makes it especially noteworthy and illuminates the limits of national autonomy in the contemporary global political economy.

A couple of additional points also merit emphasis. First, the Malaysian economy is already very "open" by international standards, and has become steadily more so. Imports plus exports of goods and non-factor services represented 211 percent of GDP in 1998, up from 105 percent as recently as 1988.[14] Put simply, this means that Malaysian policy-makers are extremely dependent on maintaining access to the wider international economy. Moreover, not only has Malaysia's exposure to the international trading system grown dramatically, but the sorts of things Malaysia exchanges with the world have also changed. The second point to emphasise, then, is that there has been a profound secular change in the structure of Malaysia's economy: manufacturing had grown to more than 33 percent of GDP by the mid-1990s, up from less than 7 percent at the time of independence in 1957.[15] It has been this rise of manufacturing (and the concomitant relative decline of agriculture) that has underpinned the high GDP growth rates and the rising living standards that have been associated with East Asian industrialisation. Importantly, it has been precisely the provision of "substantive performance and material benefits" that has underpinned the legitimacy of, and popular support for, recent Malaysian governments.[16] In an environment in which governments appear unable to deliver on such a commitment and appear powerless to insulate society from external shocks, the basis of governmental authority is inevitably undermined.

The potential for economic problems to spill over into the political arena was clearly demonstrated in the downfall of Anwar Ibrahim. There is no intention here to analyse that episode in detail,[17] other than to note, first, that the economic crisis exacerbated existent leadership tensions, and second, that external agencies like the IMF consciously tried to influence Malaysian domestic politics in support of Anwar, who was perceived to be a champion

[14] Bank Negara, *Annual Report 1998* (Kuala Lumpur: Bank Negara, 1999), p. 31.

[15] K.S. Jomo, *Southeast Asia's Misunderstood Miracle: Industry Policy and Economic Development in Thailand, Malaysia, and Indonesia* (Boulder: Westview Press, 1997), p. 89.

[16] William Case, "Malaysia: Aspects and Audiences of Legitimacy," in M. Alagappa, ed., *Political Legitimacy in Southeast Asia: The Quest for Moral Authority* (Stanford: Stanford University Press, 1995), p. 103.

[17] For a more detailed examination of this episode and its implications, see W. Case, "Politics beyond Anwar: What's New?" *Asian Journal of Political Science* vol. 7, no. 1 (1998), pp. 1-19.

of the "market-friendly" policies the IMF was striving to encourage throughout the region.[18] This domestic and *international* political struggle makes any "objective" reading of Malaysia's response to the crisis especially difficult. If nothing else, the episode serves to remind us just how intimately connected politics and economics are, especially in Malaysia. Nevertheless, an examination of Malaysia's response to the crisis in particular and to globalisation more generally is especially worthwhile, as it illuminates a number of issues of wider relevance.

Malaysia's Response to Globalisation and Crisis

Like every other nation that has opened itself up to or tried to integrate with the international economy, Malaysian policymakers must attempt to deal with the three elements of globalisation detailed earlier: the internationalisation and expansion of financial markets; the transformation of global production processes; and the re-configuration of political authority.

Taming the foreign beasts

One aspect of Malaysia's response to the crisis and the challenge of globalisation has attracted more attention than any other. What Mahathir has described as the "foreign beasts" of international financial markets,[19] are emblematic of globalisation and, from Mahathir's perspective at least, potentially threatening to Malaysia's existent political economy. It should be noted, however, that there is more than an element of hypocrisy in Malaysia's position: the central bank (Bank Negara), took a much more benign view of financial markets before it lost about US$2 billion speculating in international currency markets. However, the action that probably proved most decisive in winning the domestic policy debate over responses to globalisation was Mahathir's removal of the central bank governor – an Anwar ally – Tan Sri Ahmad Mohamed Don, and also his deputy.[20] This effectively marked the end of possible central bank independence of the sort encouraged by the IMF and other multilateral agencies.

There are, by now, a number of detailed analyses of the East Asian crisis which have stressed the role played by massive flows of highly mobile, short-term capital in precipitating events.[21] One of the key points to emerge from such analyses is that, whatever the nature of domestic or generic problems

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[18] I. Stewart, "Mahathir Fumes as IMF Eggs on Anwar," *The Australian*, 31 March 1998, p. 29.

[19] I. Stewart, "Foreign Beasts out to Destroy Us: Mahathir," *The Australian*, 1 September 1997, p. 13.

[20] L. Lopez, "Resignations Signal Malaysian Policy Shift," *Asian Wall Street Journal*, 31 August 1998, p. 1.

[21] See, for example, J. Winters, "The Financial Crisis in Southeast Asia," in R. Robinson, et al., eds., *Politics and Markets in the Wake of the Asian Crisis* (London, Routledge, 1999), pp. 34-52; R. Wade and F. Veneroso, "The Gathering World Slump and the Battle over Capital Controls," *New Left Review* vol. 231 (1998), pp. 13-42; and M. Beeson, "Indonesia, the East Asian Crisis, and the Commodification of the Nation-state," *New Political Economy* vol. 3, no. 3 (1998), pp. 357-74.

in East Asian forms of capitalism, there is widespread agreement that contemporary financial markets pose particularly acute risks for comparatively small economies and that these arrangements played a major role in precipitating the crisis. Although access to large pools of international capital obviously has the potential to speed up the process of development through increased flows of investment, the potential for speculation and misallocation of resources is greater where such "investments" are short-term, unhedged, and channeled through poorly regulated domestic intermediaries.

Although Malaysia has suffered from many of the same problems and shortcomings as its neighbors, it is important to stress that, in many respects, Malaysia's "economic fundamentals" were acknowledged to be quite respectable and certainly considered to be much healthier than either Thailand's or Indonesia's. Consequently, Malaysian public officials have been especially indignant about the "herd" behavior of financial markets and the adverse judgements of international ratings agencies, which appeared to lump together a number of East Asian nations fairly indiscriminately, encouraging further capital flight, some of which, it should be noted, was domestic. They have a point. Short-term debt as a percentage of foreign exchange reserves (one of the key indicators of potential financial vulnerability), despite having more than doubled in less than four years, was significantly lower in Malaysia (62 percent) in mid-1997 than it was in Indonesia (182 percent), Korea (214 percent) or Thailand (153 percent).[22] Likewise, Malaysia's current account deficit as a percentage of GDP did not exceed the psychologically important – in the minds of market players, at least – 6 percent barrier during the four years preceding the crisis, and returned to a healthy positive surplus of 13 percent in 1998.[23] This is not to suggest that the Malaysian economy was without problems. As the National Economic Action Council's initial report acknowledged, "excessive" credit creation in the non-tradable sector had fueled an unsustainable and speculative property boom.[24] However, from the perspective of a number of prominent domestic commentators,[25] Malaysia appeared to be unfairly targeted by international financial markets, fuelling a sense of indignant nationalism that has effectively bolstered Mahathir's position.

Thus, a number of factors encouraged Malaysia's eventual experiment with capital controls. First and foremost, Malaysia's initial experiment with IMF-style policies of fiscal austerity appeared only to exacerbate adverse domestic economic conditions and, in any case, did little to the win the support and approbation of "the markets." Second, the ground swell of

[22] Bank for International Settlements, *68th Annual Report* (Basle: BIS, 1998), p. 128.

[23] Bank Negara, *Annual Report*, p. 37.

[24] National Economic Action Council, *National Economic Recovery Plan: Agenda for Action* (Kuala Lumpur: Prime Minister's Department, 1998), pp. 13-14.

[25] See, for example, Lim Kok Wing, Ho You Chai, R. and Yee Mee Fah, *Hidden Agenda* (Petaling Jaya: Limkokwing Integrated, 1998).

nationalism and anti-Americanism that developed in Malaysia in the wake of the crisis was partly encouraged by Malaysia's political elite and gave it the support it needed for what would otherwise have been generally considered a highly risky strategy. What is significant, as far as a more general assessment of national autonomy in the face of the globalisation of financial markets is concerned, is that when capital controls were imposed, for whatever reason or rationale, they appear to have been relatively successful.[26]

The central goal of Malaysian policy was to regain control over the value of the ringgit. This was achieved by reducing its internationalisation via revamped external account regulations and, in September 1998, by fixing its value against the U.S. dollar. Malaysian authorities wanted to reduce domestic interest rates by curbing the outflow of ringgit, an outflow that was being driven by higher interest rates (20 to 40 percent) in offshore markets. Simultaneously, inflows of short-term capital were curbed by requiring such capital to remain within Malaysia for a minimum of twelve months. The intention was to provide authorities with sufficient "breathing space" to stimulate a domestic economic revival without incurring an adverse reaction from financial markets.[27]

Given that a generalised recovery now appears to be occurring throughout East Asia (with the noteworthy exception of Japan), it is difficult to make a definitive judgement about how important such controls have been in underpinning Malaysia's own recovery. What can be said, however, is that even for a comparatively small economy like Malaysia's where the political will exists – for whatever reason – it appears that autonomous policy options *still* exist, even in a globalised economy dominated by financial markets. At the very least, such controls appear to have insulated Malaysia from the sort of catastrophic economic downturns that occurred in Indonesia, Thailand and South Korea. Moreover, the continuing inflow of capital and the demonstrated ability of the Malaysian government to raise money in offshore markets suggests that such controls are not fatal impediments to long-term investor confidence. On the contrary, there has been a "flood" of foreign direct investment into Malaysia in the wake of the crisis, of precisely the sort the government is most keen to attract.[28] From Mahathir's perspective, then, Malaysia has been able to escape, to some degree at least, from what he calls

[26] I. Stewart, "Mahathir Wins Praise for Economic Reforms," *The Australian*, 6 April 1999, p. 24.

[27] The Malaysian government established two instrumentalities to finance government deficit spending (Danaharta) and bank restructuring (Danamodal) through new bond issues. Significantly, other government-controlled institutions like the Employee Provident Fund and Petronas (the national oil company) were earmarked to be major buyers. While this control may have facilitated the implementation of government policy and insulated policymakers from the judgement of market forces, it clearly raises important questions of propriety and risk management given the sensitive nature of the funds involved.

[28] M. Hiebert, "Eyes Wide Open," *Far Eastern Economic Review*, 13 May 1999, pp. 50-52. Revealingly, however, despite Mahathir's fulminations against "the markets" he felt obliged to explain his policy initiatives to influential fund managers, *Asian Wall Street Journal*, "Mahathir Clarifies Malaysia's Plans to Many Foreign Fund Managers," 15 September 1997, p. 3.

the new "colonialism" he claims was being imposed via global financial markets, and has thus been able to maintain a degree of autonomy in the most globalised sector of the international economy. Precisely the same sort of logic is at work in Malaysia's approach to the "real" economy.

The Malaysian developmental state

Some of the most important theoretical questions to emerge in the wake of the crisis revolve around the efficacy of state "intervention" in the real economy. One of the hallmarks of the so-called developmental state pioneered by Japan was a willingness and a capacity to seek to direct the pattern and course of economic development. The rationale for employing a range of industrial policies was essentially that states are better able to coordinate complex economic decision-making processes, overcome potential market failures, and generally encourage the development of more strategically important, wealth-generating industries than would otherwise be the case. Whatever problems Japan may currently be experiencing, its capacity to accelerate and continually upgrade the process of industrialisation was remarkably successful over many years. It was precisely because Japan was both successful *and Asian* that it was of such "enormous importance, not just economically, but also symbolically and psychologically."[29]

The logic behind Mahathir's "Look East" policy, and the self-conscious emulation of the Japanese model, was to overcome the constraints of both "late" development and a post-colonial economic structure. Again, it is important to recognise that, while the Malaysian variant of the developmental model may have been distorted by contingent ethnic factors and the need to maintain a regime predicated on patronage, the rhetorical justification for Mahathir's initiatives has potential merit and wider implications. Mahathir recognised that the secular downturn in the value of resource products on world markets, and the corresponding relative increase in the value of manufactured products, meant that nations without a manufacturing capacity were destined to experience declining living standards. In other words, prospering in a global economy was dependent on producing the sorts of products that fetched the highest prices on international markets. In an increasingly competitive international environment, in which many governments were attempting to encourage a similar transition to an industrialised economy, government assistance appeared to be an essential component of the development process. This was especially so in an environment in which the established industrial powers dominated many of the most lucrative niches of the global economy and where the international system itself was less accommodating of aspiring industrial nations than it had been when Japan, and the first generation of newly industrialising countries (NIC) prospered.

[29] Mahathir, *New Deal*, p. 83.

While Mahathir's high-profile mega-projects have attracted widespread criticism both inside and, particularly, outside Malaysia, their essential logic often reflects a highly sophisticated and increasingly mainstream understanding of the preconditions for sustained industrial development. The "Multi-media Super-corridor" (MSC), for example, is based squarely on a widespread belief that industrial evolution and innovation is dependent upon (or likely to occur more readily where) "clusters" of similar industries exist, and where individual companies can take advantage of crucial "spillovers," externalities, and the benefits of agglomeration. While the precise contours of any national institutional matrix for the coordination of economic activity may reflect contingent factors, there is increasing agreement that some are more conducive to industrial innovation than others and that governments have an important role to play in this regard.[30] The MSC project is an emblematic and integral part of a wider goal of national economic and social development outlined in Mahathir's "Vision 2020."[31] What detracts from this vision of establishing such advanced technocratic competence, of course, is the way Mahathir has used the national oil company, Petronas, to finance theoretically dubious projects like the national capital, Putrajaya, or to bail out high-profile corporations subject to little public oversight or accountability.[32]

Malaysia's reliance on foreign capital and the need to accommodate and respond to the bargaining power of comparatively footloose international capital has, however, clearly placed limits on government authority. Critics have pointed out that the course of industrialisation in Malaysia, especially the utilisation of export processing zones, has failed to generate complex "backward" and "forward" linkages between the "domestic" and "external" economies.[33] Nevertheless, industrialisation has occurred at a rate that, until recently, excited widespread admiration. What is of significance here is that the manner of this development – whatever the political imperatives underpinning it may have been – suggests that not only are there still a variety of ways of responding to the universal imperatives of globalisation, but that even for comparatively small economies like Malaysia's, potentially effective strategies of intervention remain open to national governments. Yet, where such contingent responses continue to exist, and where they are

[30] On the importance of clusters, see Michael Porter, *The Competitive Advantage of Nations* (London: Macmillan, 1990), pp. 148-75. On successful patterns of economic development more generally, see J.R. Hollingsworth and R. Boyer, "Coordination of Economic Actors and Social Systems of Production," J.R. Hollingsworth and R. Boyer, eds., *Contemporary Capitalism: The Embeddedness of Institutions*, (Cambridge: Cambridge University Press, 1997), pp. 1-47.

[31] M. Mahathir, *Malaysia: The Way Forward*, Address to the Malaysian Business Council, 28 February 1991. Available at: <http://epu.jpm.my/epu-mservis-v2020.html>. Significantly, the MSC project, with its explicit role for interventionist government in forcing the pace of industrial development that might otherwise not occur, even enjoys the support of prominent Malaysian neoclassical economists like Mohamad Ariff (personal communication).

[32] S. Jayasankaran. "Saviour Complex," *Far Eastern Economic Review*, 12 August 1999, pp. 10-13.

[33] K.S. Jomo, ed., *Industrializing Malaysia: Policy, Performance, Prospects* (London: Routledge, 1993).

taken to confer "unfair" advantages on practicing governments, they have increasingly been subjected to international attempts to establish a so-called "level playing field." It is arguably this latter development that stands as the greatest challenge to Malaysia's pursuit of autonomy.

The politics of economic independence

The management of the East Asian crisis and its aftermath was an unambiguously international affair. Given the increased economic integration associated with processes of globalisation this is, perhaps, not surprising. States acting alone are simply not capable of providing the sort of international operating environment and transnational public goods that are required to sustain a complex international economic system and the sort of private-sector activities that need to occur within it.[34] In other words, some degree of international cooperation between states – and by implication some diminution of state sovereignty – is an inescapable facet of the contemporary global political economy. What was most striking about the management of the East Asian crisis, however, has been the role played by a number of extra-regional actors and agencies, and the systematic attempt to impose a very different, market-centered neoliberal economic order on a region in which the state has traditionally played a much larger role. Mahathir's response to the crisis, and to the process of greater integration of *political* as well as economic activities, can only be understood by recognising that such processes present an especially acute challenge to the leaders of countries, like Malaysia, where politics and economics are tightly fused.

The increasingly influential discourse of market-centered reformism being promoted by powerful international organisations like the IMF and the World Bank – and also actively supported by the United States – presents a direct threat to a number of East Asian countries. While generally presented as a technically neutral model for promoting greater economic efficiency and accountability through practices of "good governance," the agenda being advocated by the World Bank and the IMF is designed to sever the nexus between government and business that has been so characteristic of East Asian development. What is novel about the contemporary world order in this regard is that external agencies and multilateral agreements are being increasingly employed to "lock-in" neoliberal reforms and to consolidate the separation of political and economic processes, something that is taken to be a central part of effective reform.[35] Given this backdrop, some of Mahathir's initiatives begin to seem less like the idiosyncratic reactions of a leader out of contact with economic reality, and to appear more as politically

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[34] P. Cerny, "Globalization and the Changing Logic of Collective Action", *International Organization* vol. 49, no. 4 (1995), pp. 595-625.

[35] S. Gill, "New Constitutionalism, Democratization and Global Political Economy," *Pacifica Review* vol. 10, no. 1 (1998), pp. 23-38.

rational responses to the challenge of maintaining power and national autonomy.

Mahathir's proposed East Asian Economic Caucus (EAEC), for example, were it to be successfully developed, might provide an altogether more permissive, less intrusive regional economic grouping than its Anglo–American dominated, market-oriented equivalent, the Asia Pacific Economic Cooperation (APEC) forum.[36] Likewise, Japan's proposal to establish an Asian Monetary Fund (AMF), in order to generate a specifically regional response to the crisis, can be represented as an opportunity to manage currency turbulence without the necessity of succumbing to the specific conditions attached by the IMF in return for its assistance. Indeed, it is worth emphasising that Mahathir's depiction of IMF assistance packages as simply a mechanism for imposing a new "Western" order on the region is actually supported by the IMF itself: one of the principal reasons the IMF acted to scuttle any proposed Asian rescue package was precisely the possibility that it would adopt a much more tolerant view of East Asian government-business relations and fail to inaugurate long-term structural change.[37] The "overriding objective" of Malaysian policy, by contrast, was to "insulate the economy" from the disciplinary impact of market forces.[38]

A couple of points about Malaysia's response to the challenge of greater intra- and inter-regional political interaction merit emphasis. First, unlike the Western European experience, economic cooperation within the East Asian region has not necessarily been envisaged as part of a process of greater political integration. East Asian organisations like the Association of Southeast Asian Nations (ASEAN) have been intended to reinforce the nation-state rather than pool or dilute its sovereignty. In this respect, Mahathir's efforts to insulate Malaysia from the intrusive attentions of organisations like the IMF, and the imperatives of economic integration, may be giving expression to a more widely held Asian perspective.[39] Where externally generated reform initiatives threaten to unravel the entire domestic political economy and the complex balance of forces that underpin it, creating institutions or mechanisms with which to mediate such forces is clearly an attractive option. Second, Mahathir enjoys a degree of domestic political support that, despite the traumas associated with Anwar's dismissal, makes the continuing pursuit of national economic autonomy worthwhile. As Khoo Boo Teik reminds us, "Most Malaysians could not remember a time of greater prosperity or lesser

[36] For a discussion of the differences between these organisations, see R. Higgott and R. Stubbs, "Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific," *Review of International Political Economy* vol. 2, no. 3, (1995), pp. 516-35.

[37] S. Fischer, *Capital Account Liberalization and the Role of the IMF*, IMF Seminar: Asia and the IMF, 19 September 1997. Available at <http://www.imf.org/external/np/speeches/1997/091997.htm>.

[38] Ministry of Finance, *Economic Report 1998/99* (Kuala Lumpur: Ministry of Finance, 1998), p. 36.

[39] R. Higgott. "The Asian Economic Crisis: A Study in the Politics of Resentment." *New Political Economy* vol. 3, no. 3 (1998), pp. 333-56; M. Beeson, "States, Markets, and Economic Security in Post-Crisis East Asia," *Asian Perspective* vol. 23, no. 3 (1999), pp. 33-52.

inter-ethnic recrimination than the mid-1990s. Economic indicators alone would not have captured the pride that Malaysians discovered, perhaps for the first time, in being Malaysian."[40] In short, not only can globalisation still be resisted or distinctively mediated by local circumstances, but there may be powerful political incentives to continue to do so.

Concluding Remarks

Let me emphasise in these concluding remarks that I have not been attempting to develop a defense of Mahathir's authoritarian political leadership or to justify the networks of patronage and influence over which he has presided. Far from it. Yet, whatever we may think about Mahathir as an individual or the strategies he employs to maintain his grip on power, there is no doubt that he continues to highlight and give voice to issues which are of great importance in East Asia and central to the operation of the contemporary global political economy. In short, the Malaysian experience tells us much about the possibilities for national economic autonomy in an era characterised by processes of globalisation. There are thus a number of important lessons to be drawn.

First, contingent national circumstances continue to matter, even in an increasingly integrated global political economy. Malaysia's domestic political imperatives may be more acute than most, but they suggest that politicians – even authoritarian ones – will find ways to reflect the interests of influential domestic forces. The distinctive genius of Malaysia's political leadership may be, as Jesudason argues,[41] its capacity for "reflexive monitoring of internal and external economic and political conditions," and for reflecting such forces in policy. Whatever outsiders may think of Mahathir and Malaysian politics, he continues to enjoy significant – if occasionally grudging – domestic support. The ethnic cataclysm that continues to menace Indonesia in the wake of the crisis is the frequently cited specter that Malaysians seek to avoid. In such circumstances, many Malaysians appear willing to trade off immediate political liberalisation for the prospect of continuing ethnic and economic stability.

This leads to a second lesson: even small economies like Malaysia's retain effective policy instruments that allow political elites to continue exercising

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[40] Khoo, Boo Teik. "Economic Nationalism and its Discontents: Malaysian Political Economy after July 1997," in R. Robinson, et al., eds., *Politics and Markets in the Wake of the Asian Crisis* (London, Routledge, 1999), p. 263. Moreover, despite the gradual internationalisation of the Malaysian economy, anecdotal evidence suggests that there has, as yet, been no major concomitant shift in the political orientation of key business figures. Unlike a number of more developed countries, including Japan, no powerful domestic lobby has emerged to champion the platform of greater openness and liberalisation. (Abdul Razak Baginda - personal communication).

[41] J. V. Jesudason, "The Syncretic State and the Structuring of Oppositional Politics in Malaysia," in G. Rodan, ed., *Political Oppositions in Industrializing Asia* (London: Routledge, 1996), p. 134.

a surprisingly high degree of autonomy. Whether it is the type of industrial policies that have been associated with East Asian development generally, or in such specific innovations as the application of currency controls, there are a number of strategies available to policymakers which appear both to confer autonomy and to be actually capable of achieving some of their intended goals. There is another associated point that merits emphasis: the Malaysian experience strongly suggests that such policies can be implemented effectively without the existence of an autonomous bureaucracy of the sort associated with Japan in its heyday. Whether the possible benefits of such interventions accrue to Malaysians-in-general, or to a well-connected elite, is another, highly political, question. The key point, however, is that whatever the motivations may have been for pursuing policies of insulation and independence, Malaysia demonstrated that such policies *are* possible, even in an international system dominated by the interests of financial capital and powerful multilateral agencies.

Or then again, perhaps not. One of the most intriguing contradictions of the Malaysian case is that, having demonstrated that it is possible to resist the dominance of global financial interests, Malaysian policymakers appear to be systematically dismantling their defenses and reintegrating with the wider international system.[42] Having established powerful, and not entirely self-serving arguments as to why small nations should not expose themselves to the vicissitudes of international financial markets and short-term capital flows, Malaysia seems intent on following the conventional "Western" wisdom and rejoining the international system. Perhaps the most significant, if paradoxical, lesson to emerge from Malaysia's recent experience is that, despite the apparent dangers, both economic and political, neoliberal ideas and the powerful agencies, market actors and nations that support them are proving increasingly difficult to resist, even where there seem to be powerful motives and capacities to do so.

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[42] Confidential interview, Bank Negara. See also Bank Negara, *Annual Report* (1998), pp. 64-65.