



The Heritage Foundation
Executive Memorandum

No. 557

October 16, 1998

MALAYSIA AFTER THE CRACKDOWN: A POOR VENUE FOR ASIAN SUMMIT

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Until September, former Deputy Prime Minister of Malaysia Anwar Ibrahim—a friend of the United States and a modern pro-market reformer—seemed destined to succeed Prime Minister Mahathir Mohamed, who has led Malaysia for 17 years. On September 2, however, Mahathir sacked Anwar; then, on September 20, he had Anwar arrested on spurious charges of sexual misconduct. While in custody, Anwar has been brutally beaten.

The reasons for Mahathir's actions most likely are rooted in his reactions to the Asian economic crisis. He implemented policies that contradicted not only Anwar's strong policies as Finance Minister, but also the spirit of reforms recommended by the Asia Pacific Economic Cooperation (APEC) forum. APEC's leaders have committed to creating a free trade area by 2020, and progress toward this goal is critical if Asia's economic decline is to be reversed.

President Bill Clinton is scheduled to attend the upcoming APEC summit in Malaysia on November 17. The President and his administration should send a strong message to Mahathir regarding both his political treatment of Anwar and his economic policies that violate free-market ideals. They should seek a change in venue for the summit and publicly speak out on Anwar's situation.

APEC'S MALAYSIAN DISTRACTION

Prime Minister Mahathir is ill-suited to host the upcoming APEC summit. He has long criticized free trade and Western values, and his treatment of

Anwar Ibrahim, who had earned respect throughout Asia and in the United States for his efforts, has upset many APEC members. In addition, Mahathir's responses to the Asian economic crisis—which may cause Malaysia's economy to contract by 5 percent this year—go against APEC's goals.

When the crisis began in Thailand last year, investors saw that Malaysia suffered from many of the same policy woes that beset Thailand. Sensing weakness, currency traders sold Malaysian *ringgits*, causing the currency to plummet in value. At first, Mahathir blamed currency traders like George Soros for the economic recession. Anwar opposed the protectionist policies Mahathir wanted to put in place, and was able to restore some economic confidence in Malaysia. But his insistence on painful economic reforms to shore up the weak financial sector threatened business interests that were politically important to Mahathir. Just before firing Anwar as Deputy Prime Minister in early September, Mahathir imposed restrictions that prohibited trading the *ringgit* outside of Malaysia. This had the effect of increasing

Produced by
The Asian Studies Center

Published by
The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C.
20002-4999
(202) 546-4400
<http://www.heritage.org>



the currency's value without undertaking the more difficult reforms that would increase financial-sector transparency.

After firing Anwar, Mahathir had him arrested on what appear to be trumped-up charges of sexual misconduct, which is a crime in predominantly Muslim Malaysia. Unprecedented street demonstrations after the arrest were quickly suppressed. Anwar's trial, scheduled to end just two days before the beginning of the APEC meeting, will be a distraction for the summit's participants if it is held in Malaysia.

APEC, MAHATHIR, AND THE ASIAN ECONOMIC CRISIS

Mahathir's arrest of Anwar is part of a larger Asian backlash against the kind of free-market policies needed to resolve the Asian economic crisis. In 1994, the APEC forum of 21 countries, which began in 1989 as an informal gathering of Pacific Rim economic leaders, committed to the goal of creating a Pacific-wide free trade and investment area by 2010 for developed countries, and admitting less developed countries by 2020. Last year, its leaders agreed to accelerate trade liberalization in 15 sectors. However, some countries, like Japan, are now balking at committing to trade liberalization in all 15 sectors.

In fact, an anti-reform trend highlighted by government intervention and protection of collusive economic relationships is gaining momentum, and Malaysia, counter to APEC goals, is helping to lead this trend by imposing currency controls designed to avoid needed reforms. Mahathir's role in promoting this trend does not set the stage for a successful APEC summit in Malaysia.

U.S. LEADERSHIP FOR APEC

Beset by domestic distractions, the Clinton Administration has not adequately protested the treatment of Anwar Ibrahim or responded to Mahathir's challenge to America's leadership role in APEC. In the midst of the most serious Asian eco-

nomics crisis since World War II, the United States and APEC cannot afford to let their interests in Asia be threatened by Mahathir's protectionist policies. The Asian crisis has contributed to a decline in U.S. aircraft and agriculture exports to Asia, and it could decrease U.S. economic growth next year by a full percentage point.

American leadership is needed at the APEC forum. To reassert its leadership role, the Clinton Administration should:

- **Seek** to change the location of the APEC summit. So far, the Administration has not supported this option. The presidents of the Philippines and Indonesia reportedly considered boycotting the summit to protest Mahathir's treatment of Anwar. Changing the summit's venue would send a firm message to Mahathir about his actions and allow Washington and APEC to focus on advancing APEC's goals, such as lowering trade barriers.
- **Make** clear that the President will speak out strongly at the summit against Mahathir's treatment of Anwar and Malaysia's anti-market actions.

CONCLUSION

When President Clinton attends the APEC summit in November, he should not ignore either the brutal treatment of former Deputy Prime Minister Anwar Ibrahim or Prime Minister Mahathir's challenges to APEC goals and the U.S. leadership role. To emphasize U.S. concerns and increase pressure on Mahathir to rethink his policies, the President should seek a new location for the summit. APEC's success in decreasing barriers to trade is important to reviving Asia's moribund economies and preventing the crisis from spreading even further. A Malaysian distraction during the summit would be both unfortunate and counterproductive.

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