

## **Mahathir Says Limited Asia Threat if Greece Exits Euro**

Greece leaving the euro would have limited effect on Asia and the Mediterranean country should study such an exit as a way to restore competitiveness, Malaysia's leader during the 1998 Asian financial crisis said. "I think if it's just Greece alone it will not affect the Asian market that much," former Malaysian Prime Minister Mahathir Mohamad said in a Bloomberg Television interview in Tokyo May 26. "With Greece it will still be possible to confine the effect more to Europe than to the rest of the world." Mahathir, 86, joins other world leaders in discussing an orderly Greek departure as Europe's debt crisis deepens. While concern Greece will leave the euro erased about \$4 trillion from global stocks this month, policy makers including International Monetary Fund Managing Director Christine Lagarde have said it's an option. Mahathir drew investor condemnation and the ire of the IMF when he imposed capital controls during the Asian crisis. "If they go back to the drachma in a controlled fashion, it may be possible for them to lower their costs and regain their competitiveness," Mahathir said. "They must seriously consider Greece exiting the euro. They cannot devalue the euro in order to become more competitive." His view contrasts with that of Malaysia's central bank Governor Zeti Akhtar Aziz, who as acting governor implemented capital controls for Mahathir in 1998. A Greek exit could cause contagion comparable to that during the Asian crisis and have "unimaginable" consequences for Europe, she said in an interview earlier this month. 'A Step Back' Mahathir responded with capital controls when investors fled Asian economies during the crisis about 15 years ago, with Thailand, Indonesia and South Korea getting IMF bailouts. The Thai baht was devalued in July 1997, setting off a plunge in regional currencies. The ringgit fell 89 percent to 4.77 against the dollar in the next six months. Mahathir blamed the ringgit's slide on investors, including billionaire financier George Soros, whom he labeled a "moron" who was trying to destroy growth through speculative attacks on the currency. In September 1998, Malaysia set limits on foreign-exchange transactions, trapping an estimated \$18 billion of foreign capital for at least a year. It also fixed the ringgit at 3.80 to the dollar, a peg that would remain for almost seven years until Mahathir's successor, Abdullah Ahmad Badawi, ended it in July 2005. Some curbs on offshore trading of the ringgit remain. The IMF called Malaysia's response to the Asian crisis at the time "a step back." The Washington-based lender later softened its stance after previously pushing spending cuts and rate increases in countries from South Korea to Indonesia as a condition for aid. In 2010, it released a study saying limits on capital flows are a "legitimate" tool in some cases for nations facing surges in investment that may destabilize their economies. 'Weak' Position Mahathir, who won five consecutive national elections as the leader of Southeast Asia's third-biggest economy before stepping down in 2003, reiterated advice for current Prime Minister Najib Razak to hold off on national polls due by early 2013. Najib's government is in a "weak" position, he said. "Maybe sometime in the next five months before the end of the year," Mahathir said of the best election timing. Asked about a growing backlash in Europe to austerity, Mahathir said such measures must not be applied too rigidly. Still, Europeans and Americans

must adjust to lower standards of living, he said. “The Europeans and the Americans were paying their people far too much, giving them all kinds of perks, unemployment benefits, early pensions,” Mahathir said. “All these things have got to be looked into.”

Disorderly Default

“At the moment, there’s no legal and formal mechanism for Greece leaving the euro so a lot of people don’t know exactly how it would happen,” said Christopher Gothard, head of foreign exchange at Brown Brothers Harriman (Hong Kong) Ltd. “If you have a disorderly sovereign default followed by a financial crisis in Greece followed by a financial crisis across Europe in terms of a banking crisis then it’s not going to look so good.”

Slowing growth in Europe and the U.S. associated with political and economic turmoil has hurt Malaysia, Mahathir said, causing it to lose exports. A looming slowdown in China, Asia’s largest economy, also threatens to affect shipments, he said. “If there is a slowdown in China we would suffer in terms of losing the Chinese market,” he said. “At the same time we may be able to improve the competitiveness of our products.”

Malaysian Slowdown

Malaysia’s economic growth slowed last quarter, with gross domestic product rising 4.7 percent after expanding 5.2 percent in the previous period, Bank Negara Malaysia said on May 23. Its economy will probably expand within the central bank’s 4 percent to 5 percent range forecast for this year, driven by domestic demand and private investment, Zeti said on May 23. That compares with 5.1 percent growth last year.

Mahathir said Najib should wait to call elections until after the Muslim fasting month of Ramadan, which ends in August. The current prime minister inherited a weakened National Front coalition, Mahathir said, which won 2008 elections by the narrowest margin since independence in 1957. “Being weak, he has to respond to the criticisms,” Mahathir said. “But when you are faced with this problem anything you do is not enough.”

In the run-up to elections Najib has faced two rounds of protests from a group known as the Coalition for Clean and Fair Elections, or Bersih, which is supported by the opposition. Police fired tear gas and arrested 512 people as they marched in Kuala Lumpur on April 28, seeking faster and more radical changes to the country’s voting rules.

Najib has promised to pass laws boosting personal freedoms. In April, he tabled legislation limiting how long police can hold suspects without trial and that states people cannot be arrested for political beliefs.

Mahathir, who led the country for 22 years, recommended in February that Najib should take more time before holding the next election in order to win more support from groups such as the country’s ethnic Chinese.

Najib said this month the election will be held “very soon.”