

# Capital and Control

## *Lessons from Malaysia*

Rawi Abdelal and Laura Alfaro

*The authors argue that what success Malaysia had in implementing capital controls recently will rarely work in other nations. If controls are to be adopted, they must be agreed to multilaterally.*

GOVERNMENTS AROUND THE WORLD have embraced the thirty-year-old trend toward the free movement of capital. International capital markets have grown to be enormous—\$1.2 trillion change hands in global markets every day. The promise of liberalization is an efficient global allocation of savings, with markets channeling financial resources to their most productive uses and increasing economic growth and welfare around the world. Many developing countries jumped on the bandwagon, opening their capital accounts in the hope of borrowing to finance domestic investment and encouraging foreigners to invest directly in their emerging markets.

The gains have not come without pain, however, as it has become clear that massive, mobile international capital markets

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bring risks. The devastating financial crises of the past few years—in Asia, Russia, Brazil, Argentina—have prompted a re-appraisal of the costs of liberalization.<sup>1</sup> There are more crises to come. And so a debate about the future of the international financial architecture has emerged. Members of the international financial community are formulating their positions on the appropriate balance to strike between the benefits and risks of global capital markets, as well as the balance between financial market freedom and a government's ability to manage its own economy.

The experience of one country—Malaysia—is at the center of this debate. As the financial crisis in Asia wreaked havoc in 1997 and 1998, Thailand, Indonesia, Korea, and the Philippines turned to the International Monetary Fund (IMF) for financial assistance. Malaysia, however, did not, choosing instead to manage the crisis alone and to regulate unilaterally capital flowing in and out of the country, a remarkable move for a country that had embraced international capital markets as a central component of its development strategy.

In this essay we outline the lessons of Malaysia—for other developing countries and for the future of the international financial architecture. We argue that the fundamental purpose of the Malaysian capital controls has been widely misunderstood. Rather than just economic growth, Malaysian leaders sought political autonomy from international financial markets. Although the Malaysian government achieved that autonomy, most developing countries will not be able to replicate the Malaysian experience, for its domestic context was unique. The most important lesson of Malaysia, we insist, is that the debate about whether individual governments can unilaterally regulate global capital markets should be at an end. We now know the answer, which is “rarely.” The only debate that remains is whether there should be *multilateral* regulation of international financial markets—whether some of the liberalization of the past thirty

years should be undone. In other words, the question must be whether governments should cooperate in order to control international capital markets.

## **Mahathir vs. the Market**

While some members of the international financial community suggested that the capital flowing out of Asia was exerting good discipline on the poor macroeconomic management of the region's regimes, Malaysia's prime minister, Dr. Mahathir Mohamad, disagreed. Mahathir recently insisted, with characteristic confidence, "The idea that the market will discipline government is sheer nonsense."<sup>2</sup>

Mahathir's encounter with international financial markets during the Asian crisis of 1997–98 was not altogether agreeable. The Malaysian prime minister questioned the motives of fund managers and "speculators," famously calling George Soros a "moron." Members of the international financial community responded in kind, with Soros also ungenerously labeling Mahathir a "menace to his own country."

The acrimonious interaction between the market and Mahathir culminated in the Malaysian government's decision, on September 1, 1998, to impose capital controls—restrictions on the international purchases and sales of financial assets. Malaysia's capital controls provoked even greater controversy. Policymakers and economists have emphasized one question: Did Malaysia's capital controls work?

The crucial issue, oddly ignored by almost everyone involved in the debate, is the specific objective that Malaysian capital controls "worked"—or not—to achieve. Many policymakers and economists have assumed that the Malaysian government resorted to capital controls primarily to achieve the greater flexibility to lower interest rates and increase government spending,

both in the service of promoting a more rapid economic recovery from the crisis. If we accept that the objective of the capital controls was growth in gross domestic product (GDP), then this debate is unlikely to achieve resolution. In this relatively narrow debate, the appropriate counterfactuals completely determine the answer to the question. The other four countries involved in the crisis—Indonesia, Korea, the Philippines, and Thailand—turned to the IMF for support, and therefore Malaysia's economic performance with capital controls and without the IMF must be compared to the performance of its more orthodox neighbors.

Certainly it must be accepted by everyone that the capital controls did not produce catastrophic effects for Malaysian economic performance in the short run, since Malaysia did, after all, recover soon after the imposition of controls. Malaysian GDP, which had grown by 7.3 percent in 1997, declined by 7.4 percent in 1998, only to rebound 6.1 percent in 1999 and grow another 8.2 percent in 2000. The complications multiply, however. Other changes may have encouraged Malaysia's recovery. The depreciation of the Malaysian ringgit by more than 50 percent, for example, increased the competitiveness of Malaysian exports, particularly manufactured goods sent to a growing U.S. economy. The other countries of the region were, with IMF support, also recovering by the autumn of 1998. Alan Greenspan's October 1998 decision to lower interest rates aided Asia's recovery. Furthermore, Malaysia's restrictions on capital outflows were short-lived, as the government began to loosen some of them already in February 1999. Perhaps most significant is the fact that the capital controls were imposed more than a year after the financial crisis began in July 1997. Much of the capital that was going to flee Asia in a panic had already fled. Indeed, many observers have wondered why the Malaysian government, if it was going to attempt to control capital flows, waited so long.

We argue that the debate on Malaysia's capital controls must be broadened significantly. Most important, the objectives and results of the capital controls must be disentangled. The public statements of Mahathir and Bank Negara, the central bank, are utterly clear: What Malaysian authorities wanted most from the capital controls was *autonomy* from international market forces. They hoped to promote a more rapid recovery with that au-

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tonomy, to be sure. But at a minimum, Malaysian authorities valued autonomy for its own sake. And Malaysian authorities also sought to maintain the distributional priorities of the thirty-year-old New Economic Policy, which was designed to balance the income and wealth of the country's diverse ethnic communities. “More than any other country,” the Malaysian prime minister wrote, “Malaysia needed to have control over its economy. Malaysia's economic focus was not only on GDP growth, but also the distributive aspects of growth.”<sup>3</sup> Violent riots in neighboring Indonesia, which played upon ethnic tensions and eventually ended the thirty-year rule of President Suharto, surely also weighed on the minds of Malaysian authorities.

We can learn a great deal about how to analyze whether the Malaysian capital controls “worked,” therefore, simply by paying attention to the stated goals of Malaysian authorities. We have to ask, first, whether the capital controls worked to give the Malaysian government greater autonomy from international market forces. Then, if the controls did indeed give the government more autonomy, we can ask whether Malaysian authorities

used their increased autonomy prudently—including whether the reflationary policies pursued by the government led the economy to recover more quickly than it otherwise would have, or whether the government simply bailed out friends of the regime.

Even more, perhaps, can be learned by *not* paying attention to the stated goals of Malaysian authorities. Instead, it is also necessary to explore the fundamentally political sources of Malaysia's capital controls by assessing the struggle for power within Malaysia between Mahathir and his erstwhile protégé and rival, Anwar Ibrahim. Anwar, who had been finance minister since 1993 and the country's primary link to the international financial community, was immensely popular on Wall Street and in Washington. The *Wall Street Journal*, for example, had called him Malaysia's "calm voice of economic reason" during the Asian crisis. But Anwar reportedly sought to gain power within the ruling United Malays National Organization (UMNO) during the summer of 1998, apparently by toppling Mahathir himself—a bad move, in retrospect.

In addition, under Anwar's guidance, Malaysia had been following an orthodox approach to the crisis, an approach that ended abruptly when Mahathir sacked him on September 2, 1998, the day after the capital controls were announced. We argue that Malaysia's capital controls were designed not just to stem the capital flight that had been under way since 1997, but also to prevent the new round of capital flight that was sure to result from Anwar's sacking. The harsh treatment of Anwar after his dismissal, which included his arrest and conviction on charges of sodomy and obstruction of justice, suggests that some within the Malaysian government had intended to remove Anwar from the political scene altogether.

We conclude that Malaysia's capital controls did indeed increase the government's autonomy from international financial markets. We leave open the debate about whether that autonomy

was used prudently, however, because the economic question cannot be resolved and the political question demands a value judgment of Mahathir's regime as well as of Anwar's treatment. Instead of attempting to resolve that debate, we suggest that an even more important question is whether other developing countries can implement capital controls in order to insulate themselves from global markets.

The answer is that the governments of other developing countries cannot copy Malaysia's controls to increase their autonomy. Capital controls tend to be very difficult to implement unilaterally. Three factors were crucial to Malaysia's successful implementation. First, Bank Negara had a high level of foreign exchange reserves. Second, Malaysia had relatively little external debt. Third, and finally, the links between public authorities and the financial system were deeply institutionalized; that is, Malaysia's banks were either unable or unwilling to attempt to circumvent the controls. Thus, although Malaysia achieved the autonomy of which some other governments have been jealous in this age of internationalized financial markets, very few developing countries will be able to follow Mahathir's lead in reining in the market. The capital market genie is out of the bottle. No single government that wishes to put the genie back in is likely to be able to do it alone.

### **The Malaysian Government's Pursuit of Autonomy**

To long-time observers of Malaysian political economy, Mahathir's eventual insistence on achieving autonomy from international market forces is no shock: Malaysian authorities have, at least since 1971, exhibited an unusually high degree of skepticism for market outcomes. Since the era of British colonialism, the country's urban and commercial centers had been dominated by immigrants from China and the descendants of what became

a tightly knit ethnic Chinese community. Malays, despite an official affirmative action program run by British administrators, lived most frequently, in contrast, in rural poverty. Between 1957, the moment of independence, and 1969, Malaysia's politics were delicately balanced by putative representatives of Malaysia's Chinese, Indian, and Malay communities. But in May 1969, after the results of a general election suggested that this political balance might be overturned and Malay political dominance questioned, tensions erupted into deadly riots in Kuala Lumpur, the capital.

Malaysian authorities decided that the riots had resulted in part from the disappointment and resentment of Malays at the wealth of the Chinese community in Malaysia. The government therefore sought to address the issue of interethnic and interracial wealth distribution by implementing what it called a New Economic Policy in July 1971. The NEP, which built on the foundations of the British affirmative action program for Malays, was designed to "restructure" Malaysia's economy through explicit employment and ownership quotas, a variety of trust agencies to manage equity on behalf of Malays, and financial and technical assistance for Malay entrepreneurs. Clearly Malays had been dissatisfied with the way in which "the market" seemed to reproduce Chinese economic predominance. So, since at least 1971, Malaysian authorities have explicitly sought to manage domestic markets.

### *Reasons for Pursuing Autonomy*

In 1997 and 1998 there also may have been good economic reasons for the Malaysian government to seek autonomy from markets—this time, international markets. As capital fled the region's high-flying economies as quickly as it had arrived in the middle of the decade, the Malaysian economy suffered as well. The ex-

change rate collapsed from 2.5 ringgit to the dollar in June 1997 to a low of 4.5 ringgit to the dollar in January 1998, triggering a vicious cycle of capital outflows and asset price deflation, which then put pressure on the banking system. Share prices on the Kuala Lumpur Stock Exchange (KLSE) declined precipitously. The interbank overnight interest rate (the Malaysian analogue to the federal funds rate in the United States) rose from around

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7 percent in June 1997 to 12 percent in July. The government was unable to raise money to fund its ambitious recovery program. And some currency speculators borrowed ringgit in the offshore ringgit market with the intention of selling them for dollars and then buying them back after the ringgit's further depreciation—in essence short-selling the ringgit. The increasing offshore interest rates, a consequence of the short-selling, put upward pressure on domestic interest rates as well.

Malaysia's initial response to the crisis was orthodox. Under Anwar the government tightened monetary and fiscal policies—raising the interest rate to defend the ringgit and cutting public expenditure to improve fiscal and trade balances. Some Western economists—Paul Krugman and Robert Barro among them—as well as Malaysian policymakers suggested, however, that a more unorthodox approach was warranted by the financial crisis, which resembled, arguably, a panic.<sup>4</sup>

The economic logic, therefore, of the government's pursuit of autonomy from markets was to promote a more rapid recovery from the crisis by reducing the speculative pressure on the currency and cutting the link between interest rates and the exchange rate, thereby allowing the government to pursue an

independent monetary policy without being concerned that the ringgit would continue to depreciate.

The political logic of autonomy is apparent from the timing of the decision. On September 2, the day after the government abandoned the orthodoxy associated with finance minister Anwar, Mahathir sacked Anwar himself. On September 3, Anwar's situation continued to deteriorate. The ruling party, UMNO, expelled him, despite his holding the second-highest post of deputy president. Shortly thereafter Malaysia's High Court released detailed affidavits alleging sodomy by Anwar, affidavits that were later recanted. In August 2000, Anwar was convicted of the sodomy charges, in addition to an April 1999 conviction for obstruction of justice brought against him over the course of the sodomy investigation, and sentenced to six years in jail. Having been linked to a power play at the June 1998 UMNO general assembly, Anwar's fall from Mahathir's graces was rapid. As of 2003 it also appeared indefinite. Anwar's political career in the current regime is apparently at an end, his cultivation as Mahathir's successor permanently incomplete.

It is clear that the consequences of Anwar's dismissal would have been dire for the Malaysian economy. Already under pressure from international financial markets, the ringgit, the KLSE, and the government suffered from a mass exodus of capital tempered primarily by the international financial community's confidence in Anwar. Mahathir's decision to make himself finance minister would hardly have calmed the markets. Anwar's sacking would have caused a new financial crisis born of the sudden collapse of investor confidence in Malaysia's dirigiste cabinet, now completely dominated by Mahathir. And it was this financial crisis—the crisis that was about to descend on Malaysia in September 1998, not the one that had begun in Thailand in July 1997—that Malaysian authorities most needed to manage. Malaysia's capital controls provided the autonomy for Mahathir

to alter the balance of political power in the country without provoking another round of devastating capital flight.

### *The Design of the Policies*

Malaysia's unorthodox set of policies to manage the country's existing and potential financial crisis was designed by Nor Mohamed Yakcop, special advisor to the prime minister. Nor

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Mohamed had been at the foreign exchange trading desk at Bank Negara, a post he left after reportedly causing Bank Negara to lose a fortune when he bet that the Bank of England would not let the sterling float during the August 1992 crisis of the European monetary system. It was George Soros who, famously, won that bet. (No wonder Soros was unpopular in Kuala Lumpur.) Mahathir recalled Nor Mohamed to explain the financial crisis to him. Impressed with the lucidity of the explanation, Mahathir asked Nor Mohamed to design the policy solution.

The policies Nor Mohamed designed were extraordinary in their complexity and sophistication. A perusal of Bank Negara's press release of September 1, 1998, which details existing and new regulations, can give one the sense that Malaysian authorities went through the balance of payments line by line analyzing ways to prevent the outflow of short-term capital and eliminate speculation on the ringgit. Malaysian authorities clearly sought to separate rigidly their restrictions on short-term capital outflows from the long-term capital inflows—foreign direct

investment—on which the economy, or at least the government's plan for the economy, had become so dependent.

The most direct, and perhaps most notorious, of Malaysia's unorthodox policies were the controls on capital outflows. Non-residents were required to wait for one year to convert ringgit proceeds from the sale of Malaysian securities—that is, foreigners who sold shares on the KLSE could not take the money out for a year. *Business Week* likened the policies to “a financial Roach Motel: Money can get in, but it can't get out.”<sup>5</sup> In February 1999, the government replaced this regulation with a sliding scale of exit taxes on capital gains, ranging from 10 to 30 percent. Then, in September 1999, Bank Negara replaced the two-tier tax with a flat 10 percent exit tax, which it subsequently abolished in February 2001. Additionally, Malaysians themselves were prohibited from investing abroad without prior approval from Bank Negara.

A more subtle policy was the elimination of the offshore ringgit market, which was viewed as a source of speculative funds and upward pressure on domestic interest rates. Toward this end the government required that all ringgit held offshore be repatriated within a month, after which only the ringgit already in Malaysia would be legal tender. Furthermore, ringgit lending by Malaysians to foreigners was prohibited. With these two simple regulations, the offshore market for ringgit was eliminated. As Nor Mohamed recognized, “It's easier to stop the guy who has the ringgit from lending to currency speculators” than it is to prevent speculators from borrowing ringgit.<sup>6</sup>

Two related measures were the fixing of the exchange rate at 3.8 ringgit per U.S. dollar and the closure of the Central Limit Order Book (CLOB), an over-the-counter market for shares on the KLSE based in Singapore, which was seen as a loophole to the regulation of foreigners' repatriating the proceeds of their securities sales.

With this complexity and sophistication came, inevitably, enormous confusion about what the policies prohibited and allowed. Bank Negara undertook a massive information campaign, complete with scores of clarifications and a twenty-four-hour hotline to answer questions. Of course, this was an administrative burden for the bank as well as for anyone who had to operate within the new set of regulations. The complexity of the policies, combined with the prime minister's colorful rhetoric, also led to the widespread perception that the Malaysian policies were not only unorthodox, but downright radical.

### **The Implementation of the Capital Controls**

After imposing these new regulations on short-term capital flows, the external use of the currency, the exchange rate, and CLOB, the Malaysian government sought to reflate the economy. Bank Negara aggressively reduced interest rates: Within a week, daily interbank interest rates had fallen from nearly 8.5 percent on September 1 to 5.5 percent on September 5. The government passed a fiscal stimulus program, which it was finally able to fund through the sale of government bonds on the domestic market. Recovery appeared to coincide with the controls. The KLSE rallied, its main index nearly doubling during the first week of the new regulations. Thus we have the stalemate among those who debated the purely economic effectiveness of the capital controls—the answer depends on the appropriate counterfactual. Was Malaysia already poised to recover along with the rest of Asia? Or was Malaysia still in crisis? Or, finally, as we suggest, were Malaysian authorities about to produce a new financial crisis—with fundamentally political causes—as a result of Mahathir's sacking Anwar? In any case, the capital controls cannot be considered a short-term failure, since economic growth, after all, resumed. The long-term reputation costs borne by Ma-

Malaysia may eventually outweigh any potential short-term gains, but that remains to be seen.

The conventional wisdom among economists, however, is that capital controls are almost always ineffective and frequently counterproductive. Malaysia's experiment with capital controls went more smoothly than most—and particularly the experience of Latin America during the 1980s—for three main reasons.

First, Malaysia had significant foreign exchange reserves. Indeed, before the imposition of the controls, the country's foreign exchange reserves had already stabilized. In July 1997 Bank Negara had a little more than 70 billion ringgit worth of foreign exchange reserves. Between January and August 1998 foreign exchange reserves fluctuated between 56 and 59 billion ringgit, the trough coming in February, six months before the capital controls were put in place. And the current-account surplus that followed the devaluation of the ringgit meant that Bank Negara's stock of reserves was actually increasing. As Nor Mohamed, the chief architect of Malaysia's capital control regime, insisted, "To do this you must have foreign exchange—external reserves."<sup>7</sup> Another way of saying this, however, is that neither Malaysians nor foreigners were trading their ringgit for other currencies *en masse*. There was little pressure on Bank Negara's foreign asset position. There were plenty of dollars to pay for imports, more than three months' worth. The Malaysian government clearly recognized that the country was not about to run out of money.

Second, Malaysia had little foreign debt, both public and private. This was the outcome, in part, of explicit government policy. Following a crisis in the mid-1980s, Bank Negara imposed prudential regulations—restrictions on foreign borrowing—that limited the exposure of Malaysian firms and banks to foreign debt, especially the short-term, dollar-denominated obligations that proved so problematic elsewhere in Southeast Asia. While more than 50 percent of Korea's and Thailand's external debt had been

short-term before the crisis began, only one quarter of Malaysia's had been. Similarly, compared to Indonesia's external debt of more than 60 percent of its GDP, Malaysia's had been a relatively healthy 42 percent. Instead the government strongly favored foreign equity, going to great lengths to attract foreign direct investment in particular. The prime minister explicitly acknowledged the centrality of Malaysia's position: "Other developing countries are very different. They cannot implement what we implemented. The reason why Malaysia could is because we don't borrow."<sup>8</sup> While the foreign currency obligations of Malaysia's neighbors put continuing pressure on their foreign exchange reserve positions, the Malaysian government was more insulated already.

Finally, and perhaps most important, black markets—the bane of capital controls in Latin America—did not complicate the imposition of Malaysia's new regulations. This meant that neither the restriction on short-term capital outflows nor the regulation on the offshore ringgit market was subverted. IMF economists remarked: "The authorities closely monitored the activities of the commercial banks and at times exercised moral suasion to ensure enforcement of the regulations. . . . [The effectiveness of the controls reflected] strict implementation and enforcement of the measures by Bank Negara Malaysia and a disciplined banking system, which strictly interpreted the measures and has not sought out potential loopholes."<sup>9</sup> The same IMF report noted that the measures were "effective in achieving the objective of eliminating the offshore ringgit market."<sup>10</sup>

There are several reasons that the Malaysian regulators were, contrary to the conventional wisdom, effective in their implementation of the capital controls. First, Malaysia's domestic institutions are particularly capacious. Second, the Malaysian state—considered as a set of relationships between public and private actors—is deeply institutionalized. The relationships between Bank Negara and the banking system allowed for such

effective regulation. In other words, it was, paradoxically, the very “cronyism” for which Malaysia has been criticized that allowed the government to control capital. Third, these relationships between the government and powerful economic actors also aligned their incentives, so that banks did not attempt to subvert the capital controls because they had as much stake in their success as did the government.

### **Lessons for Other Developing Countries and the Financial Architecture**

The greatest lesson of Malaysia’s capital controls for other developing countries is also a paradox. It is possible for governments to implement capital controls successfully—in the sense of preventing large capital outflows—when countries are endowed with a great deal of foreign exchange and unencumbered by debt. That is, governments can unilaterally control capital when they least need to—when they have all of the things that developing countries never do, including money, a favorable asset position, and institutional capacity.

Even when all of these domestic preconditions are in place, it is still necessary to tally the costs of capital controls. In addition to the administrative burden on citizens and public authorities alike, the use of capital controls is likely to be punished by the international financial community. Although the international financial architecture designed at Bretton Woods in 1944 enshrined the right, even the desirability, of governments to control capital movements, times have changed. The formal rules of the international financial system—the IMF’s Articles of Agreement among them—have not been rewritten, but the informal rules, the norms of international finance, have. The economist John Maynard Keynes told the House of Lords in 1944 that the conventional wisdom about capital controls had changed. Keynes observed of the Bretton

Woods agreement, "Not merely as a feature of the transition, but as a permanent arrangement, the plan accords to every member government the explicit right to control all capital movements. What used to be a heresy is now endorsed as orthodox."<sup>11</sup> By the late 1990s, however, capital controls, once Bretton Woods orthodoxy, were apparently becoming heresy again.

Malaysia therefore suffered for its experimentation with capital controls. Citing the controls as just cause, rating agencies such as FITCH IBCA, Moody's, and Standard and Poor's downgraded Malaysia's sovereign risk rating. The risk premium the Malaysian government must bear has persisted. The costs to Malaysia's reputation among prominent members of the international financial community—including the U.S. Treasury, Wall Street, and the rating agencies—were very high indeed. Most developing countries can ill afford to bear these reputational costs.

What this means for the debate about the future of the international financial architecture should be clear: The systematic and successful regulation of international capital flows is likely to be accomplished only multilaterally. The combination of rapid technological change and financial innovation with the openness of capital accounts throughout the developed world makes unilateral attempts to control capital (of the Malaysian variety) increasingly unlikely to succeed. As Mahathir argued, "Most countries, I'm afraid, will not be able to do it. That is why a change in the international system must be done in order to protect the weak countries."<sup>12</sup>

The debate can no longer be about what individual governments may do to regulate capital flows, but what the international financial community should do, if anything. Reasonable people disagree about this issue. Although there is no correct answer, the terms of debate, informed in part by the lessons of the most celebrated (or notorious) attempt to regulate capital in the post-Bretton Woods era, must be clear. The Malaysian capital-controls episode holds little hope for other developing coun-

tries—lacking foreign exchange and burdened by debt and weak state institutions. Of course, any multilateral regulation of capital flows would necessarily create a new, perhaps intractable collective action problem. If the members of the international financial community—including the U.S. Treasury, the IMF, the OECD, and member countries—decide that nothing should be done at the global level, then we are destined to live in a world of mobile capital, with all its peril and promise.

## Notes

1. See, for example, Jagdish Bhagwati, "The Capital Myth: The Difference Between Trade and Widgets and Dollars," *Foreign Affairs* 77, no. 3 (1998): 7–12; and Maurice Obstfeld, "The Global Capital Market: Benefactor or Menace?" *Journal of Economic Perspectives* 12, no. 4 (1998): 9–30.
2. Authors' interview with Dr. Mahathir Mohamad, prime minister of Malaysia, Kuala Lumpur, October 8, 2001.
3. Mahathir Mohamad, *The Malaysian Currency Crisis: How and Why It Happened* (Petaling Jaya: Pelanduk, 2000), pp. 19–20.
4. Paul Krugman, "Saving Asia: It's Time to Get Radical," *Fortune* 138, no. 5 (September 7, 1998): 74–80; and, after the controls were in place, Robert Barro, "Malaysia Could Do Worse Than This Economic Plan," *Business Week*, November 2, 1998.
5. Peter Coy, Manjeet Kripalani, and Mark Clifford, "Capital Controls: Lifeline or Noose?" *Business Week*, September 28, 1998.
6. Authors' interview with Nor Mohamed Yakcop, special adviser to the prime minister, Kuala Lumpur, October 11, 2001.
7. Nor Mohamed interview, October 11, 2001.
8. Mahathir interview, October 8, 2001.
9. Alora Ariyoshi Akira, Karl Habermeier, Bernard Laurens, Inci Otker-Robe, Jorge Ivan Canales-Kriljenko, and Andre Kirilenko, *Capital Controls: Country Experiences with Their Use and Liberalization*, IMF Occasional Paper no. 190 (2000), pp. 99–100.
10. *Ibid.*, p. 99.
11. Speech to the House of Lords, May 23, 1944.
12. Mahathir interview, October 8, 2001.

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