

THE OPENING CEREMONY OF THE TWENTY-SEVENTH CONFERENCE OF GOVERNORS OF SOUTH-EAST ASIAN CENTRAL BANKS
REGENT HOTEL, KUALA LUMPUR, 22 JANUARY 1992

On behalf of the Government of Malaysia, I have great pleasure in extending to you a very warm welcome to the Twenty-seventh Conference of Governors of South-East Asian Central Banks or SEACEN in Kuala Lumpur. I am told that this gathering of SEACEN Governors is one of the few longstanding and successful vehicles of regional co-operation of its kind in the world and I am proud that Bank Negara Malaysia is an active partner closely involved with this group. I am a firm believer in regional co-operation, particularly among like-minded countries, as a means of promoting beneficial exchanges which contribute to the economic growth and well-being of member countries. Your presence here for this conference is, I believe, a testimony that you share the same sentiment. It is my sincere hope that the SEACEN Governors and their guests, through their deliberations today and in the next two days, would further strengthen the bonds of co-operation and friendship among their institutions and countries.

2. In 1991, we saw the growth of world output and trade decelerating for the third consecutive year. In particular, economic activity in the industrial countries slowed down significantly, with output declining and unemployment increasing in many countries. Current prospects for any strong recovery in North America and in the United Kingdom are not encouraging. Risks of continuing weak economic activity remain, due largely to the low level of business and consumer confidence. Recent policy easing by the Federal Reserve Board offers some hope of a recovery in the United States this year, but all indications are that it is likely to be mild. Economic growth in Japan and Germany is expected to moderate to more sustainable levels, but new uncertainties have since emerged, leading to the possibility that the slowdown in economic activity may turn out to be more severe than expected, with detrimental effects on the global economy. These developments have generated concerns for the continued growth of developing countries, since they are highly dependent on export markets in the industrial countries. They underline the growing need of developing countries to become more self-reliant and reduce their dependence on industrial countries in charting their economic future. It seems to me that developing countries will have little choice except to accelerate South-South co-operation in the fields of trade and investment if they wish to continue to enjoy sustained growth.

3. Concerns have also been expressed in the past year or so by both developed and developing countries about the prospective shortage of global savings. There will be an increasing demand for world savings, particularly to finance structural reform in Eastern Europe, the economic unification of Germany, the debt problem of many developing countries, the post-war reconstruction of Iraq and Kuwait, and, very likely, prospective reforms in the Commonwealth of Independent States. Developing countries also still need large amounts of funds for development. These factors, together with investment demand in the industrial countries arising from their need to improve productivity and maintain or improve their living standards are expected to put upward pressure on

international interest rates over the longer run. This would exacerbate the debt servicing problems of developing countries and force them to curtail growth. This prospect underscores the importance and urgency of arresting the decline of global savings. It is imperative that the industrial countries implement policies that will increase savings so that international resources and capital stock can increase.

4. The situation in the heavily indebted developing countries remain extremely difficult, with the prospect of regaining external viability remaining elusive. The persistent global debt problem continues to undermine the success of the adjustment programmes of developing countries, and their ability to attract foreign direct investment and external financing. Moreover, the slowdown in global economic activity has led to a weakening of export markets, with falling commodity prices contributing to a further deterioration in the terms of trade of primary producers. There is a pressing need for further debt relief for countries willing to undertake economic reform. Further progress in extending debt relief along the Trinidad and Tobago terms, most certainly merits greater attention. The successful resolution of the debt problem also requires a freer international trading environment to enable developing countries to realise their export potential, and the adoption by industrial countries of appropriate macroeconomic and structural adjustment policies, so as to induce sustained growth with low inflation, and stable exchange and interest rates. External financing flows in adequate amounts and in a timely manner are no less important.

5. Given the outward orientation of our economies, the major challenge facing us in the 1990s will be to ensure that international trade is carried out in an open and competitive system. Protectionist measures have increased substantially and are a major threat to the future trading environment. Increased protectionism has also tended to discourage investment in export sectors and reduce the responsiveness of trade flows to prices. Of growing concern also is a discernible trend towards the linking of totally unconnected issues, such as human rights and environmental matters, with trade. There is a belief among developed countries that by forcing the poor to become poorer, they will show more respect for human rights and spend more money on the environment. In fact it is poverty which brings on repressive and insensitive Governments. A freer international trade environment will enable developing countries to expand their exports and, thereby, increase their incomes and standards of living. They can then afford to be more liberal and to care for their environment. The successful conclusion of the Uruguay Round of multilateral trade negotiations are therefore very urgent.

6. Turning closer to home, I must highlight the fact that, generally, the strong outward orientation, external competitiveness and relatively low level of indebtedness of the SEACEN region have contributed to its economic dynamism. Moreover, our region is blessed with abundant natural resources and a hard-working workforce motivated by aspirations to achieve a much higher standard of living than previous generations. Given the growing economic interdependence, it is rational that we move toward pooling our resources and sharing regional markets. Regional co-operation in our part of the world,

therefore, holds vast potential to further enhance the dynamism of our economies. First, sustained economic expansion in the region will insulate us at least partially from the vagaries of the external environment. Second, greater trade among ourselves will enable us to reap the advantages of large-scale production, create greater mutual interdependence and accelerate the pace of industrialisation.

7. As a government, the ultimate objective of economic growth must be to eliminate poverty and to raise living standards. Unfortunately, we live in an imperfect world, and the art of economics, even though many in the profession still prefer to call it a science, has not yet been able to find a satisfactory way to measure the standard of living of nations, especially across countries. Often, the income per capita denominated in United States dollars is used as a convenient proxy -indeed, to the extent that many, including politicians and professionals who should know better, regard them as synonymous. The use of per capita income for any purpose is fraught with limitations. What is perfectly clear is that it is a poor approximation of domestic purchasing power. We all know that the same McDonald "Big Mac" hamburger in Kuala Lumpur is about 3 times cheaper than in the U.S. and 5 times cheaper than in London. Furthermore, per capita income pays no attention to improvements in the quality of life, arising from improved health care, reduction in income inequality, increased access to housing, education and other social amenities, higher life expectancy and lower infant mortality, and a cleaner environment. On each of these, we have made rapid progress.

8. The American dollar is not a stable currency. When it appreciates against the ringgit, our per capita goes down. When it depreciates our per capita goes up. To complicate matters the dollar may depreciate against the ringgit but the yen might appreciate. Then as a country which does 25% of its trade with Japan, we will find our per capita higher but we will have to spend more money to buy Japanese goods. With fluctuating exchange rates which in many instances are totally unrelated to economic performance, per capita income in U.S. dollars really measure nothing.

9. For Malaysia, our living standard needs to be assessed beyond just the per capita number. We intend to make further progress to become a developed nation by the year 2020 in the broadest sense of the term, that is, politically, economically, socially, spiritually and culturally. That is to say, we want to be considered beyond sheer economic numbers -our record will reflect the maintenance of political stability, progress in social justice, enhancement in the quality of life, and the strengthening of ethical and moral values.

10. Perhaps, Governors present may want to pick up this challenge to develop for SEACEN a sensible yet practical measure of living standards across countries, so that we are in a better position to evaluate our own achievements and weaknesses, and others, too, will be better placed to assess our progress and performance in the world community of nations. To the extent that you succeed, you would have made a positive contributions to how the world can better understand national aspirations and, for that matter, how the world should

look at itself, thereby ensuring that the fruits of economic progress are always measured in terms of the economic and social welfare of the peoples of nations.

11. Honourable Governors, distinguished guests, delegates and observers, I hope your deliberations would be able to bring about a better understanding of the complex issues and challenges facing our world and help you to find sensible solutions to the problems that plague the world economic system. Although you have a sizeable agenda to cover in the next few days, I am pleased to note from the programme that you will have some time to visit Langkawi and Penang in the northern part of the country. I hope you will enjoy your stay in Malaysia and come back again.

12. Finally, in the spirit of the true co-operation, understanding and friendship among the South-East Asian nations, I take great pleasure in declaring open the Twenty-seventh Conference of Governors of South-East Asian Central Banks.