

**THE FINANCE MINISTERS OF ASEAN AND ASEAN PLUS SIX AND THE  
CONFERENCE ON FINANCIAL INITIATIVES FOR THE 21ST CENTURY  
PUTRA WORLD TRADE CENTRE, KUALA LUMPUR, 01 DECEMBER 1997**

As Prime Minister of Malaysia I would like to welcome you, the Finance Ministers of the ASEAN countries, and the six ASEAN partner countries to Malaysia and to this crucial conference on the world finance system and the cross-border flows of funds in a rapidly globalising world.

2. Ever since the end of the Pacific War and the decolonisation process which followed we have been witnessing commendable development and increasing economic prosperity among most of the newly-independent countries.
3. In South East Asia a regional grouping was formed 30 years ago which displayed remarkable unity and capacity to manage economic development. Elsewhere after some initial fumbling and tentative experiments with centrally-planned economies, political stability was achieved and the process of economic development instituted and progressed.
4. By the late 80's and early 90's most of the countries of East Asia, Africa and Latin America had achieved tangible development with or without help from the developed countries and international agencies. The South East Asian countries had progressed so much that they have been dubbed 'economic tigers' and 'dragons', and were held up as examples of how developing countries could govern themselves well and manage economic growth with great skill. They had become quite rich and make very good markets for the products and expertise of the developed industrialised countries of the North. In fact they contributed to the wealth of the developed countries and that of the world. Their continued growth promised to make the world community prosperous, to contribute towards the eradication of poverty worldwide and to the banishment of hunger and other scourges which plagued the world.
5. Yet in July of this year these prosperous countries were thrown into an unprecedented and rapid economic regression. Their currencies devalued rapidly and continuously. Their stock market collapsed with unwelcome consequences. Thriving and profitable companies became insolvent and tycoons as well as small-time investors became bankrupt. Construction projects were halted and completed offices and houses found no occupants or buyers, causing developers to lose money and compounding their debts. Banks foreclosed companies unable to come up with margin payments and sold off collaterals at give-away prices, further depressing the stock and property market.
6. Huge loans raised from foreign banks could not be paid and pressure was applied on the Governments to devalue and float their currencies. And when they did the currencies rapidly depreciated against the American dollar and the currencies of the developed countries.
7. The devaluation impoverished the country and the people, in particular the business community. They found themselves almost totally unable to pay foreign

debts as they needed more of their own currencies in order to make up for loss of value. It looked like they would never be able to pay their debts at all. It looked like the foreign banks which lent them money would never get back their loans. It looked like the devaluation would be borne heavily by the foreign lenders. And all the time the currencies in the countries of South East Asia kept depreciating at a rapid rate making adjustments quite impossible.

8. The Governments of the South East Asian countries which until then had been praised for performing economic miracles, for their skills in administration, their liberal investment policies with the incentives they had invented; these Governments were roundly blamed for the depreciation in the exchange value of their currencies and the consequences. They were told that they had caused a loss of investor confidence because they had engineered unsustainable levels off growth (why it was assumed that the growth was unsustainable is not quite clear since until currency traders moved in they had sustained their growth all through the years that they were told it was unsustainable), they had external payments deficit, they had allowed their banks to be over exposed to the property sector. They were told their policies were just bad and their institutions (whatever this may mean) were weak.

9. Despite their record of growth, their success in reducing poverty, their investments in infrastructure and in capital goods for growth in productivity, they were told that their spending was excessive and lacking in prudence and was weakening their economy. All these things it seems were eroding investor confidence and they have to pull out. As a result the currencies depreciated and the stock markets plunged. And when this happened it was pointed out that their critics and investors were right in their prediction and warning that this would happen.

10. We admit that we have been guilty of some of these things but not all. A few countries did have one or two of these problems but they could be remedied. Malaysia' s only identifiable weakness was a deficit in the balance of payment, which reached a peak in 1995. By 1996 it had been almost halved. And in the early months of 1997 the deficit had decreased further. Some of Malaysia' s infrastructure and development projects were big but past experience had shown that they were manageable. But the so-called investors insist that they could not maintain confidence in Malaysia.

11. They pointed out that the Thai currency which had devalued would make Thailand more competitive than Malaysia and this would erode Malaysia' s trade. It hadn' t yet but it would be. So would the competitiveness of Indonesia and the Philippines. Never mind that the economies of these countries are not exactly duplicates of each other; never mind that the markets for their products are growing; it was suggested that Malaysian, Indonesian and Philippine factories would close down because the Thais would render them uncompetitive and redundant. It was implied that this would happen overnight, unless the other ASEAN countries also devalued. Since they would not devalue voluntarily, then the so-called investors would dump their currency holdings in order to avoid a

loss when devaluation occurs.

12. Lo and behold. The moment the currency traders sold off the currencies of these countries, the currencies depreciated. It would seem that by pulling out quickly the currency traders had saved themselves from losses.

13. But is this really true? Were the currencies about to depreciate on their own or did they depreciate because the currency traders dumped huge amounts of these currencies? Were the currencies actually invested in by the currency traders i.e. were they holding huge quantities of these currencies and were running the risk of losing money from impending devaluation?

14. Since currency trading is not open, not transparent but very secretive it is difficult to ascertain how much of the so-called exotic currencies were held by the traders. But what is certain is that the countries concerned never had so much offshore funds as were traded in the so-called currency market. Yet there seems to be an inexhaustible supply of offshore money, running into billions and billions, in the hands of the currency traders, for them to sell in the market.

15. Actually of course this offshore currency did not exist. Currency trading as devised by the currency traders is such that they can borrow offshore money and sell in most cases to each other. And every time they sell, the currency devalues by a number of points. By repeatedly selling the currency its value could be depressed almost indefinitely. And when the currency has been depressed it can be bought back at the lower price and delivered to the buyers -- who incidentally had already sold the paper amount that they had bought which they had themselves to deliver. No real money was moved, except probably in the final stage, if ever the currency stops being sold.

16. The only way the currency can recover is when someone purchases the currency by selling the U.S. dollar. Central banks with dollar reserves can do this but their funds are limited and they deal in cash. Against the limited funds of the Central Banks, the currency traders can leverage their funds by more than twenty times. It is estimated that between them the currency traders have funds amounting to 180 billion dollars. Twenty times this would be 3.6 trillion dollars. No central bank, no developing country, can match this. And the currency traders work in concert.

17. Clearly the devaluation of the currencies can be easily manipulated by the traders. They never did invest or hold the currencies which they asserted would depreciate. They never ran any risk of losing money. All they did was to borrow the currency from banks, sell and resell it repeatedly and took their profits from the difference in the initial high price that they sold and the lower price money that they delivered. It is a classic case of short-selling, only the movements were caused deliberately by them and not by anything that the Governments did or any weakness of the fundamentals. And since the movements were caused by them, there was really no real risk as in ordinary speculation. They have discovered or rather invented a sure way of making billions in a few short days through selling and buying currencies and they use this against any country they

choose.

18. As a bonus they also depress the stock markets through their attack on currencies. The reaction of Central Banks to attacks is to raise interest rates. A rise in interest rates stifles the trading in shares. The share prices go down and through short selling the currency traders make more money. Sometimes they were able to lend the money they had borrowed initially at the higher rates when the Central Banks increase interest rates. More money was made.

19. It is the operation of the currency traders which cause the devaluation of the currencies of the countries of South East Asia. There may be some fundamental weaknesses but these had only a minimal effect on the value of the currencies. Without the currency traders the currencies would devalue slightly but may regain later. Indeed the currencies of many countries of South East Asia including Malaysia had in the past revalued upwards against the U.S. dollar when the U.S. was not performing well economically. But the movement was never extreme. The operation of the currency traders had caused a devaluation of between 30 to 50 percent of the currencies of South East Asian nations.

20. It is clear that with the huge resources at their disposal the currency traders can attack any country no matter how strong their economy may be. Having attacked the South East Asian countries they looked for other victims. There was no shortage of reasons for subverting the economy of any country.

21. The traders publish and circulate analysis of the financial futures of every country. Through constant releases of unfavourable news and rumours about the markets they could create grounds for the devaluation. In the absence of information to prove otherwise their prophecy becomes self-fulfilling. From then on the so-called herd instinct among them takes over.

22. A favourite gambit is contagion. Thus because of the devaluation of the South East Asian currencies, these countries were said to be more competitive than Hong Kong, Taiwan and Korea. Their currencies must therefore fall in value in order to regain competitiveness. The traders then declare that they have lost confidence in these countries and loudly revealed their desire to pull out and sell their investments in these currencies.

23. Through the same process of borrowing and selling these currencies repeatedly they were able to say that their prediction was correct. The currencies have indeed devalued and the stock-market nose-dived as well.

24. Another gambit was to say that since the countries whose currencies have been devalued have now become poorer their capacity to buy goods from their trading partners have been reduced. Their trading partners must now face a recession and their currencies too could be devalued. And indeed countries like Australia faced the prospect of losing its big markets in the Far East. And so the Australian currency was devalued also although not very much.

25. What is the effect of devaluation? Basically it reduces purchasing power of imports. And since all countries have to import goods, foods and services, they

will not be able to sustain the standards of living they had reached. In other words they would become poor.

26. In the case of Malaysia a 40 percent devaluation of the Malaysia Ringgit is equal to a reduction of per capita income from US\$5000 to US\$3000. In GDP term this amounts to approximately 40 billion US dollars yearly. At the same time more than 100 billion US dollars were wiped out from our stock market which has tumbled by almost 60 percent. Altogether we have lost about 140 billion dollars.

27. The other countries of South East and North East Asia between them must have lost more than 500 billion U.S. dollars in terms of purchasing power of imports.

28. How much have the currency traders made from their impoverishment of these countries? Quite a lot but still only a fraction of the total loss of the countries attacked. We see some of them posting good profits but on the whole the wealth transferred to them fall far short of the wealth lost by the countries attacked by them. There is therefore a huge nett loss of wealth not only of these countries but actually of the world --for the rest of the world have lost a goodly size of their market.

29. And we all know that it is not only the countries of Asia but the countries of Latin America and even Africa which had been attacked. The countries which have been spared are those which have no money to be worth attacking. Strangely the currencies of some of these poor countries have appreciated against those of the richer countries which had been attacked. These poor countries must have good fundamentals or else how can we explain their currencies performance.

30. We accept the need to exchange money. We cannot trade otherwise. But currency trading which we have seen destroying the economies of many developing countries have really no direct connection with trading in goods and services. Currency trading treats money as a commodity. But money is nothing more than tokens with no intrinsic value. Money is not like rubber or tin or copper or gold. The value that money has is what we agree to give it. Its value can therefore be depreciated or appreciated at will. The unfortunate thing is that when it is devalued people and countries suddenly become poor, sometime very poor through really no fault of their own. They really do not deserve the misfortune inflicted upon them by those who fiddle with currency values.

31. Would trade in goods and services contribute tangibly to economic development and the well-being of people? They create jobs, businesses, industries, freight, insurance, the building of roads, railways, port and airports and a lot of other amenities which benefit mankind.

32. Currency trading is said to be 20 times bigger in money terms than world trade in goods and services. Yet what benefits do we derive from it? Apart from a few people making huge sums of money and losing it sometimes, it has created no increase in employment, no growth in business or the wealth of nations and

people. On the other hand it has obviously impoverished millions and millions of people. It has impoverished countries and regions. It has wiped out decades and years of hard work, of sweat, toil and tears.

33. But the worse is yet to come. An Associated Press report pointed out that, "Turmoil in Asian economies and the weakness in Japan .....have led to volatile stock swings on global financial markets .... Investors fear the Asian troubles will hurt North American and European companies that export into the region."

34. In the face of these currency trouble and worsening of the ability to repay loans what has the IMF to offer? It offers to lend money with which to repay loans to foreign lenders. But the loans come with a string of conditions; principal among which is the opening of the financial sector to full foreign participation. It is likely that this will result in foreign banks eventually dominating the finances of the country concerned.

35. For this reason South Korea hesitated. Seoul according to the same AP report "sees that route -- with its accompanying economic control -- as a last resort, one that would reduce a proud country to a beggar surrendering its sovereignty." That hesitation caused the Korean won to depreciate by another 10 percent.

36. There is no conspiracy to dominate the economy of the developing countries of East Asia but obviously their trouble have afforded an opportunity for forcing open their economies and possible domination by strong and powerful nations.

37. The assaults by the currency traders against the emerging economies of the South have done nothing good for these target countries. Much has been made about the eventual recovery of these countries but even if they do recover they would have lost a lot of their wealth and the fruits of their struggle. In addition, they may have lost their economic sovereignty as well.

38. Surely no one can argue that the right of the currency traders to make huge profits override the well-being and the wealth of millions of people and of countries and regions. True the countries themselves may be at fault but without the manipulation of the currency traders they would not be in such dire straits.

39. If currency trading is to be allowed then it should be made transparent and it should be regulated. It is ridiculous that at time when Governments and all other businesses are being exhorted to be open and transparent, currency trading must be allowed to do their trading in almost absolute secrecy. We don't know who they are, how much capital they have, how much have they borrowed, what currency they hold, whom they sell to and who do they buy from? What and to whom do they pay taxes on the profits they make from their target countries? Certainly these countries collect no taxes from them.

40. While trade in stocks and shares and in commodities are carried out in the open and in properly designated markets, there is no proper market for currency trading, no membership, no rules and no Government regulations to stop

abuses.

41. Who decided that the traders can leverage up to twenty times or more of the funds they deposit with their bankers? Who are these bankers who can make available trillions of dollars to their clients? What is the capital resources of these banks? Who invested in them and how much? How can these banks become richer than most countries of the world?

42. We believe in globalisation, and liberalisation of trade, in dismantling national laws and rules which hamper trade and cross-border flows of capital. But surely liberalisation and deregulation of national entities should not result in exposure to an anarchic world. Haven't we been told to abide by the rule of law? How come the abolition of national laws should lead to absence of the rule of law in the enlarged world market?

43. If globalisation and open markets are to contribute to growth and enrichment there must be the rule of international law for everyone to respect. Without laws the strong and the corrupt will rule, will dominate. Is this what is being advocated?

44. International trade is being regulated by principles, policies and regulation agreed to in the World Trade Organisation. Why should currency trading be exempted from the purview of the WTO? Why cannot the WTO discuss and formulate rules and regulation for international currency trading, rules which the rich and the poor alike have a hand in drawing up, rules which are fair and just and designed to create wealth and prosperity for all? Since currency trading is 20 times bigger than world trade, is it logical to control the world trade in goods and services which make up only five percent of world trade and let a trade that is 20 times bigger unregulated and beyond the purview of those who are responsible for achieving fairness in world trade?

45. The IMF should continue to supervise, but if currency trading is trade then the WTO must be the one to formulate the regulations. Why is regulations considered objectionable for currency trade when it is good for trade in goods and services? Is there something sacred about currency trading or is there something that does not bear public examination? In a world which believes in the right to know, a world which pries and probes into the private lives of very private people, cannot we know of the people and the activities of currency traders whose decisions can inflict all kinds of misery on millions of people and a large number of countries?

46. It is normal for people who make money from what they do to pay taxes to the Governments of the people they make money from. The money these currency traders make is from trading in the currencies of many countries. As far as is known these countries receive no payment of taxes. Is it fair for the countries of their domicile alone to collect the taxes? Certain countries impose taxes on profits made in other countries. Have the countries which provide the currencies for the traders to make money from no right to impose taxes on them?

47. Looked at from any angle, currency trading demands to be regulated in the interest of everyone. Every country would be affected adversely by their activities, even the developed countries, even the countries of their domicile. They have left a trail of shattered disoriented economies and nations wherever they went. These nations and others not yet visited by them live in fear of their attacks. And for so long as they are not regulated, for so long as they can have trillions of dollars at their disposal, their capacity to attack and to damage economies will remain, and they will strike fear in the hearts not just of Governments and Finance Ministers but of businessmen and people, rich and poor alike.

48. Most of you who are here to discuss on Financial Initiatives for the 21st Century have been victims or are potential victims of the currency traders. You are responsible for the well-being and financial stability of your countries. I hope you will give thought to and consider the need and the substance of the regulations that have to be brought into force to reduce the anarchy in currency regulation.

49. I wish you useful and successful deliberations.