

**THE SEMINAR ORGANISED BY MAINICHI SHIMBUN**  
IMPERIAL HOTEL, TOKYO, JAPAN, 20 OCTOBER 1998

Thank you for your kind invitation to talk to you about the Asian Crisis and the Malaysian response.

2. The world is now heading towards a recession. Everyone acknowledges this. Whereas we are conscious that the world has shrunk into a village and we are all close neighbours, there is really no attempt to deal with the impending recession as a common problem. The remedies taken so far are piece meal, unintegrated and isolated from each other. There has been much rhetoric but no agreement on what to do and certainly no concerted action taken.

3. The greatest impediment to solving the economic and financial turmoils assailing the world is the unwillingness to acknowledge the root of the problem and therefore to deal with it. Everything else is blamed except the real cause of the problem.

4. The problem has been with us for a long time. One country after another, and sometimes one region after another has experienced sudden and massive collapse of its economy. Certain remedies were applied and some recovery was achieved. But the recovery was not permanent. The collapse recurred again and again.

5. Thus the countries of Latin America repeatedly underwent severe recession. It costs them and it costs the world a lot of money to resuscitate them. No sooner have they recovered when they again suffered another bout of economic turmoil and collapse. The same remedies were applied and recovery of a kind would be achieved.

6. European countries are not immune from these bouts of depression caused by sudden devaluations of their currencies. Financial reserves were called up and the strength of the currency restored. Some even claim that they become stronger after their bouts of economic depression. But whether they are stronger or not they can and very often they do suffer from currency devaluation again, and again.

7. The instability of the currencies hampered economic growth worldwide. The halcyon days of the fixed exchange rates under the Bretton Woods regime, when the world experienced steady and rapid economic recovery from the devaluation of the Second World War did not impress the advocates of the laissez-faire market economy. They did not believe that Governments should again fix exchange rate. The market should do so since the market knows best what is good for it. When economies fail it is because the market is reacting to some fundamental weakness or malpractices in that economy.

8. What motivates the market? Obviously it is the desire for profits. Basically it is greed, a desire for more and more. The suggestion that markets have other objectives, that it wants to see a better Government is ridiculous. What is a

better Government for the market is one which can satisfy its greed more and faster. An equitable world, a just world, a world where everyone is well-off and happy is not the concern of the market. Only if such a world affords the market a means of making more for itself will it want such an idealistic world.

9. Thus the current preoccupation of the market forces is to ensure that the financial systems of the countries which they wish to raid are open to them, are without any obstruction to their exploitation to the maximum. Any policy or practice which might get in the way of their operation for maximum profit will be regarded by them as wrong and unfair.

10. Their ideal is a situation where the Government ensures that law and order is maintained while they carry on their businesses in any way they like. They must not be regulated even if their activities destroy the economy and the livelihood of the people.

11. Presently market forces really mean the people who have under their control vast sums of money which are used for trading in currencies and shares. Since no one regulates them, they are free to devise their own rules of trading. According to their rule every time they sell any currency that currency depreciates by a few points. By repeated selling they can devalue any currency to whatever level they wish. There is no limit to which they can devalue a currency. Thus they devalued the Malaysian Ringgit by 60 percent while they devalued the Indonesian Rupiah at one time by 600 percent.

12. To revalue, the currency has to be bought with US Dollars. Thus Central Banks may defend their currency by buying their own currency also with US Dollar. But since the Central Banks have usually less money than the currency traders, defending the currency would be futile.

13. Another rule of the currency traders is that they can leverage their capital apparently as much as they like. Usually they leverage by 20 times. But the Long-Term Capital Management Fund (LTCM) actually leveraged by 30 times and then leverage this amount by a further eight times. Thus with a four billion dollar capital the LTCM could invest as much as one trillion dollars.

14. It may be true that the Governments of the countries of Southeast Asia are corrupt, practise nepotism, crony-capitalism etc. But no one can deny that these Governments had developed their countries much better than any other developing country. Such was their development that they were labelled Economic Tigers. Yet suddenly these countries collapsed and experienced the worst recession ever.

15. The currency traders and stock market raiders alleged that they pulled out their money because they had lost confidence in these countries. Is it true that they lost confidence or is it that they saw an opportunity to make a lot of money for themselves by selling down the currencies and the shares? Would they have lost confidence if they could not make any money for themselves by pulling out? Did they actually put money in these countries to back the currencies or have the

exchange rates of these currencies been there in the past without any help from the currency traders?

16. If the currency traders lost confidence in the tiger economies, why is it that they have not lost confidence in those developing countries which are badly administered, corrupted and extremely poor? Surely they should lose confidence in these basket cases rather than in the tiger economies.

17. The fact is that confidence has no part in the decision of the currency traders and stock market raiders to devalue the currencies and the shares. It was greed that motivated their people.

18. What happens when the currency of a developing country is devalued along with the share prices? The country becomes very poor. Their capacity to import goods is reduced by the percentage of the devaluation. Their cost of living rises. Their wage earners cannot make ends meet. Many will lose their jobs. In one country almost 20 million workers lost their jobs. Their banks fail and their businesses go bankrupt.

19. Within a short while people who had been prosperous will be starving. They will have no medicine, no milk for their children. They will be scrounging in the rubbish heaps for food. They will eat cats and rats.

20. The IMF will come in to offer loans. But there are conditions. These conditions, such as increasing interest rates, squeezing credit, bankrupting banks and businesses merely make matters worse. High interest rates and credit squeezes at a time of economic strain and general impoverishment only cause more business failures. Eventually the Governments will fail too as corporate and personal taxes dry up. Paying for the IMF loans would become impossible. Economic recovery would be beyond any Government.

21. Should the IMF be blamed? Yes, for making matters worse. But the IMF only came in later, after the recession had set in following currency devaluation. The primary cause is the currency traders and their greed. They are the ones who inflicted the misfortunes on the previously prosperous countries.

22. Initially the blame was placed squarely on the "corrupt and incompetent" Governments of East Asia, on their way of developing their countries and the way business in these countries were conducted. Slowly a few voices began to blame the IMF because after the IMF moved in the situation worsened. The IMF remedy was blamed. It did not take into consideration the different situations in the different countries. It was too heavy-handed.

23. Everyone avoided blaming the currency traders. How can anyone blame them when the free flow of capital across borders is one of the principles of free trade, of a borderless world, of a deregulated liberalised world. Everyone must accept capital flows in and out of countries without hindrance because it epitomises the free trade creed, the new religion which must be submitted to by all. Not only must capital be free to go anywhere but no one should know where it comes from, where it goes to, who controls it and how much of it is around.

Others must be transparent but not the activities of capital.

24. But in the meantime the contagion was spreading. After East Asia came Latin America and Russia. Europe and the United States confidently predicted that they would not be affected by the East Asian disease. They are too clean and incorruptible. They do not practise crony-capitalism or nepotism. They would never lose the confidence of the currency traders. They would never pull their money out. After all their money came from their own countries. Where can they park the money if it is pulled out of the countries which provide the capital to attack the other countries?

25. But Europe and America cannot go on being well when the rest of the world is unwell. After all the countries of East Asia make up the biggest market of Europe and the U.S. If they are poor they cannot buy the goods and services from Europe and the U.S. If Europe and the U.S. lose their East Asian market their economies must be affected. There are certain things which only East Asia buys from Europe and the U.S. Long range large aircrafts for example; computers and sophisticated electronics for example; weapons for example.

26. When East Asia becomes poor, Europe and the U.S. must become poor also -- not so much perhaps, but certainly less rich than before.

27. Blaming the IMF and not giving it funds has got the U.S. and Europe nowhere. Eventually timid eyes were focussed on the currency traders, the hedge funds with their billions and their shadowy activities. But it was not until the LTCM debacle that the U.S. and Europe awoke to the danger posed by the hedge funds and currency trading.

28. When the LTCM failed the powers that be in America suddenly realised that their own financial system can collapse too. No time was wasted in asking about Government corruption or crony-capitalism etc. Too many people, too many banks, indeed too many other hedge funds had invested in the failure-proof Nobel laureate led Long-Term Capital Management Fund. Each of them had invested huge sums of money, running into billions over in one or two cases. They cannot be allowed to lose this kind of money. They must be saved.

29. It does not matter that they would in fact be using public funds to save themselves. The banks were told to put in money, USD3.5 billion in all to save the LTCM i.e to save the investors.

30. Clearly currency trading can go wrong and threaten even the rich and powerful countries. If only the poor will be the victims nothing should be done. Now the rich may also suffer from currency trading. Therefore currency trading must be regulated so that the rich would not be threatened.

31. This is the world in which we live. This is the future that we see descending upon us in the next century, in the next millennium. In Malaysia we see these things clearly. We see that no one cares what happens to us. We are a small country struggling to catch up with the developed countries. We can expect no

help, no hand stretched out to pull us up.

32. It is in this challenging world that we seek to protect ourselves with the little strength that we have.

33. When Malaysia decided to cut itself off from the new religious creed as represented by the free market, we know that we would be regarded as heretics and we will have to face the possibility of being burnt at the stake. But we really have no choice. Being a heretic is better than being colonised by people who believe in greed as the sole motivation for their actions, who worship greed, who declare that greed is great. Such people have no compassion. We see how they have destroyed countries and regions, thrown millions out of jobs, precipitated starvation, riots, political unrests and the overthrow of Governments. We see them doing this and yet they not only disclaim responsibility but they blame others for what they have done. We would rather be heretics, be pariahs even, than be dominated by these people.

34. The only way for Malaysia to avoid colonisation is for us to protect our currency and shares from being manipulated by these people. To do this we have to illegalise offshore Ringgits. Under normal circumstances the Ringgit has no purchasing power outside of Malaysia. But offshore Ringgits can be borrowed, bought or sold outside the country. To give value to the offshore Ringgits, it is actually held in banks in Malaysia, in Vostro accounts, reflecting the ownership and amount of Ringgits held offshore. Changes in the ownership of the offshore Ringgit must be reflected in the Vostro accounts of the owners.

35. The Malaysian action is limited to stopping the currency traders from having access to offshore Ringgits. All offshore Ringgits have been made illegal or valueless unless transferred back to Malaysia within one month.

36. Ringgits in the Vostro accounts in Malaysian banks cannot be moved to reflect dealings in offshore Ringgits. Banks must inform the Central Bank of any movement in their Vostro accounts. Unless the Ringgits are put into circulation in Malaysia for normal business, such Ringgit must be deposited with the Central Bank.

37. This is about the only thing that the Malaysian Exchange Control does. Since the Ringgit has no value outside Malaysia, it cannot be taken out of the country. But foreign currency i.e foreign capital can come in and out of the country freely. Settlement of all trade bills will be done in foreign currencies. Capital coming into the country for Foreign Direct Investment (FDI) will be in foreign currencies.

38. Since the Ringgit is only available in the country, all exchange between the Ringgit and the foreign currency can only be done within Malaysia. There will be no speculations on the Ringgit exchange rate but conversion of the Ringgit into foreign currency and vice-versa can be done in order to finance business. The rate is fixed by the Government taking into account the need to be competitive in the world market.

39. The rate fixed presently is RM3.80 to USD1.00 or RM1.00 equals US26

cents. This fixed rate will be maintained for as long as possible even if the currencies of competing countries get devalued.

40. Of course certain rules and regulations have to be put in place in order to prevent abuses of the fixed exchange rate regime. Many say that a fixed exchange rate will lead to abuses and corruption. No doubt there is this danger. But Malaysia is a small country and the people are largely law-abiding. The Government has strong popular support and can enforce the policy easily.

41. So far the Exchange Rate Control Mechanism has worked well. The people, especially the business people, foreign and local have accepted it and have found no difficulty doing their business. Indeed they found the elimination of the need to hedge against fluctuation in exchange rates a decided advantage when pricing and budgeting.

42. The Malaysian economy is already showing early signs of turning around. Reserves have gone up and the balance of payment is in surplus. Inflation is going down below the five percent that prevails now. Sales of motor vehicles and houses have gone up, stimulating the transport and building material industries.

43. There are many other signs of improvements in the economy of Malaysia. Although there is some political problem arising from the dismissal of the Deputy Prime Minister and his being charged in court for a number of offences, the country is generally calm. The attempt by the followers of the former Deputy Prime Minister to resort to mob rule to achieve his release is not working. The people still adhere to the rule of law and to democracy. They reject mob-rule totally.

44. Malaysia is settling down well after the country regained control over the currency and the stock market. We are not out of the woods yet. Our detractors have done their best to undermine the country. I believe the Japanese people believe there is continuous rioting in Malaysia and it is a dangerous place to go to. I would like to assure you that Malaysia is as safe as ever. You can not only come to Malaysia but you can do business there, you can invest there with good legitimate profits.

45. I would like to invite Japanese journalists to come to Malaysia and see things for themselves. Do not trust CNN or CNBC. They have a different agenda and they tell lies in order to promote their agenda. They too are motivated by greed and the power they wield has corrupted them absolutely.