

THE APEC BUSINESS SUMMIT 1998

PWTC, KUALA LUMPUR, 15 NOVEMBER 1998

" Restoring Confidence, Regenerating Growth: Managing Globalisation Better "

It heartens me to see so many of APEC businessmen present here today. Going by the press coverage leading up to this summit on whether anyone was coming to the Kuala Lumpur APEC Economic Leaders Meeting, I was initially concerned as to whether we had ordered too much food. Now, looking at the large business representation here in this Independence (Merdeka) Hall, I hope my earlier concerns have not led the chef ordering too few desserts for dinner tonight.

2. As host to APEC this year, Malaysia feels a strong sense of responsibility that the meeting should help tackle the current economic problems. As we approach a new millennium, it is imperative that we devise and put in place a better economic and financial regime now referred to as architecture for the world. Some of these will be the result of technological progress but others will reflect the emergence of new commercial and sociological ideas and values. With your indulgence, I would like to take this opportunity to discuss the present architecture or lack of it as manifested by the anarchical and unregulated capital flows in the international monetary system. In doing so we must not be tied down by fanatical beliefs which act as mental blocks to our recognition of the facts involved.

3. What are the facts?

4. Firstly before July 1997, before the Thai Baht came under attack and was devalued, the countries of East Asia were all prosperous. Such was their prosperity that they were described as economic tigers and dragons. Their prosperity was not just confined to a privileged few although these privileged few did exist. Their prosperity was very well distributed. They were successful in reducing poverty to below 20 percent of their population. Malaysia had reduced this to below seven percent. Their per capita incomes had increased from the level of least developed countries to the middle-income group. For developing countries their infrastructure was far superior to those of other developing countries. Unemployment rates were very low so much so that workers from other region flock in to share the prosperity.

5. Their Governments were not the best in the world but despite obvious cases of cronyism etc, they must have been doing something right to prosper their countries. They were largely stable. Social and political unrests were minimal.

6. This was the situation in the countries of East Asia. But by July 1997 the dragon economies of East Asia were collapsing one after another. What happened? The Governments were the same. They had not changed policies or systems. The people were peaceful and were working as hard as ever. There was no revolution or civil war or even street demonstrations.

7. Despite everything remaining the same they all suddenly experienced

economic turmoil. Their banks and businesses collapsed. Millions and millions of workers lost their jobs. There was not enough food or medicine or milk for the children. Civil unrest and street demos with looting and even killings and rape became common phenomena. And Governments were overthrown.

8. What triggered all these upheavals was the rapid devaluation of the currencies of these countries. And alongside this came the collapse of the stock market.

9. It is accepted that ever since the Bretton Woods fixed exchange rate regime was abandoned the exchange rates of currencies had never been stable. Businessmen had to hedge against exchange rate changes and business went on without too much difficulty. But when the exchange rate changes became violent, rapid and unpredictable business must be affected. In one case the fall in the value of the currency was 600 percent i.e you require six times the amount of local currency in order to pay for whatever it is you want to import.

10. Admittedly currency devaluation has different effects on different people. For exporters of Malaysian Palm Oil the earnings and profits increased because the sale was priced in U.S Dollars. For importers the cost of goods increased resulting in higher prices at home. For those who import components to add value and re- export, the blessings were mixed.

11. Businesses and banks can go bankrupt very easily as loans and loan repayments became inflated greatly. Indeed many banks and businesses closed down resulting in unemployment. The cost of living rises resulting in demands for higher wages. Eventually there would be strikes and riots if the Government fails to provide relief. But the Government also finds its revenue decreasing as corporate taxes shrink.

12. The net effect is to impoverish the country and the people.

13. It is suggested that the economy would recover if financial reforms are carried out, if Governments are less corrupt etc. But those countries which tried to conform have found that reforms have not made things any better. In fact the economic turmoil worsened despite the reforms and the loans from the IMF. There are attempts to paint a happy picture of economies under the IMF recovering. But the facts belie this. The people in these countries are still suffering unemployment and shortages of food and other goods. None of the currencies of these countries have regained their previous strength.

14. In any case if they recover there is no guarantee they will not be attacked again by the currency traders and the share market raiders. Several Latin American countries have been attacked repeatedly with grievous results despite their reforms. The fact is that currency traders attack not because the Governments or the systems are bad but because they see opportunities for making money for themselves. An impoverished country offers them no such opportunity, but a middle income country would have sufficient money to yield a good return for them but would not be strong enough to take counter measures.

15. Allegations about bad Governments etc are just excuses. For the currency

traders it is the profits to be made that influence their decisions to attack the currency. In a word it is greed.

16. It is said that currency trading is 20 times the value of world trade. We all know that world trade is economically beneficial to every country. Jobs are created, industries flourish, land, sea and transportation and all kinds of businesses are generated because of world trade. There is probably not a single person in the world who does not gain something from world trade. It is reasonable to expect that if world trade is increased by 20 times, then the whole world and everyone on earth would be greatly enriched.

17. But what is there to show for the huge trade in currency, 20 times bigger than world trade? The number of people who invest in the hedge funds and the banks are very small -- thousands perhaps as against a world population of six billion. These people are rich people who can live comfortably without the profits from currency trading. In contrast tens of millions of poor workers lose their jobs and are starving because of currency trading, not to mention the loss of wealth of many developing countries which run into hundreds of billions.

18. There was no currency trading as such several decades ago and the world's economy did not do badly. Indeed the world's economies were more prosperous. If there is no currency trading now the world's economy would not collapse. Nobody would really suffer.

19. We need to change money for the purpose of trading. We need to determine how many units of one currency is equal to how many units of another currency i.e the exchange rates. But we need not leave it to the currency traders to determine the rate. Various indices can be used and Governments can agree to a reasonable exchange rate. It may be difficult but it is not impossible.

20. There are many mechanisms for determining the exchange rates which can be devised by the fertile minds of economists and financiers. Governments of powerful countries just cannot abdicate their roles in determining the exchange rate mechanism. They owe it to their peoples and their countries to accept the responsibility for determining the exchange rate.

21. The excuse they give that currency trading cannot be made transparent is ridiculous. On the one hand the currency traders condemned Governments for their lack of transparency, on the other hand these self-appointed discipliners of Governments are themselves not transparent. Despite dealing in billions and trillions of dollars we do not know who they are, how they trade, where they trade and who invests with them. It is only when they fail, as the Long-Term Capital Management Fund fails that we learn about them and their massive trading.

22. It is shocking to learn that with a capital of four billion the Fund could borrow up to one trillion dollars, 250 times more. Banks are supposed to exercise prudence. Is this what is meant by banking prudence? Aren't the Governments supposed to supervise banks or have they abdicated this role also?

23. While nothing was done to stop such banking imprudence, rich Governments

were quick to act to bail out the hedge funds, using money deposited in the banks by ordinary people. The rich investors in the hedge funds are being bailed out with money belonging to poor people. Yet the same Governments condemn any bailout of corporations belonging to the public using public funds. The inconsistency and double-standards are glaring.

24. The economy of Malaysia is minute compared to the world' s economy. If there is no Malaysia the world' s economy will not collapse. We cannot do anything to affect the world' s economy adversely or otherwise. We are just too insignificant. Hence the furore over Malaysia' s decision to stop the Ringgit from being traded by the currency traders is quite unreasonable.

25. We have not hurt anyone, except the currency traders. Even then only minimally because the Ringgit is only a small fragment of the huge trillion dollar trading that the currency traders are involved in. No one else is affected by the Government declaring that offshore Ringgits would cease to be legal tender unless they are returned to the country one month after the new policy was announced. The owners of offshore Ringgits would continue to own them within the country where they can earn interest or be profitably invested.

26. Other than this all business transactions are unaffected by the action taken by the Malaysian Government. All imports and exports must be paid in foreign currencies. There is nothing new in this as all foreigners convert the Ringgits into their currencies when they receive payment. Now they don' t have to convert as the local importer will convert the Ringgit locally in order to pay for his imports. Malaysian exporters will be paid in foreign currency which they can convert to Ringgits within the country. This arrangement has not caused any problem. In fact Malaysian trade is as active as ever. In the two months of the so-called capital control Malaysia registered a trade surplus of over six billion Ringgit.

27. Within the country only the Ringgit is used. The exchange rate with the U.S Dollar is fixed at RM3.80 to USD1.00. The exchange rates between the U.S Dollar and other currencies are used to determine the Ringgit exchange rate with these currencies. Since these exchange rates move, the Ringgit exchange rate with other currencies also move. But as 70 percent of Malaysian trade is done in U.S Dollar, the variable rates of exchange of the U.S Dollar against other currencies do not affect Malaysian trade much.

28. As the U.S Dollar weakens against other currencies, the Ringgit will also weaken. We are now about seven percent weaker as compared to our neighbours. That simply makes us more competitive. We need not change the exchange rate unless it is too weak or too strong compared to our competitors. Alternatively, our competitors can weaken their currencies or strengthen them according to their competitive needs.

29. The other leg of the currency control has to do with the inflow and outflow of short-term capital into the share market. By requiring the capital invested to stay in the country for one year we hope to prevent short-selling. Speculators will not like this but again the Malaysian portfolio is minute by comparison to their

worldwide operations. So it would not affect their money-making operations very much.

30. I am emphasising the smallness of the Malaysian market simply because many great economic and financial minds seem to think that we have done something that can damage the process of liberalisation and globalisation of the world financial system. We cannot. We are too small. Why not leave Malaysia alone with its idiosyncrasies. If we are wrong then we will pay the price. It would serve us right. But the world community would have learnt something and be better off for it.

31. The reason for Malaysia removing the Ringgit out of the reach of the currency traders is because we still believe that currency traders are too powerful and completely irresponsible. They don't mind bankrupting countries and regions, impoverishing millions of workers and destroying whole economies in their quest for profits. We had asked the world to regulate the currency traders but we were laughed at for not understanding the world's financial system, for being in denial, for profligate ways, for building the world's highest building etc.

32. Now the world is beginning to realise that the activities of the currency traders can adversely affect them also. And they have called for some studies. From past experience we know they are going to take a long time. And when they decide it could possibly be only to their benefit. The developing countries cannot hope for a regime that can save them especially as they will not be involved in the formulation of that regime. The last time the G-7 decided to correct the imbalance in their trade with Japan, they revalued the Yen, suddenly pushing up the debts of developing countries by two and a half times. Already the G-7 is talking about using the IMF to get the developing countries to accept IMF i.e developed countries guidelines.

33. Malaysia cannot wait for this process, for the ponderous movements of the great powers. Unless they see their own collapse staring them in the eyes, and they saw this when the LTCM failed, they would not do anything. By the time they decide, it would have been curtains for Malaysia.

34. But we are being urged to reverse our decision. Some say it is wrong while others say we have already achieved our objective and we should go back now. But we are of the view that there is still anarchy in the international financial market. If we go back there is no guarantee that we would not be attacked again.

35. Again I would like to restate that we are not doing anyone any real harm. So leave us to our devices. It would serve us right if we fail.

36. Our currency control will remain in place for as long as the world refuses to bring order to the financial market. There is a lot of contradictions between what the world says it believes in and what it does. We are constantly being told to abide by the rule of law. Presently the world believes in laws i.e in rules and regulations to govern the behaviour of everyone. Yet we are being told also that we must deregulate, we must leave finance and trade to market forces. Which

one do we follow? Mr Bill Gates used his great financial power to build up his business. He is a true free marketeer. But the U.S Government thinks he is being unfair to his competitors. We see no difference between Bill Gates and currency traders. Why should Microsoft be penalised for using market forces when currency traders are not?

37. In currency trading the Hedge Funds are the Bill Gates of the International Financial Market. They compete against puny Central Banks of Developing Countries. The Central Banks have no chance at all especially against the combined financial strength of all the Funds and the banks which lend them money. If it is unfair, improper and illegal for Bill Gates to corner the market then shouldn't the activities of the funds be considered unfair also? If Bill Gates' competitors have to be protected should we not protect the victims of the Hedge Funds also?

38. I have dwelled at length on currency trading. You are of course not currency traders. In fact you may not be affected much by currency trading. But there cannot be prosperity for anyone if an activity that causes the impoverishment of a quarter of the world is not reined in.

39. Malaysia believes in prospering its neighbours, far and near. It is not charity which motivates us. It is what we prefer to describe as enlightened self-interest. When Malaysia became prosperous because of Japanese investments, we became a good market for Japanese goods. So the Japanese reaped double benefit from their investments here.

40. If on the other hand you cause a country to become poor you will lose a market. And with that you will get poorer yourself.

41. East Asia was a huge market for the products of Europe and America. Much of that capacity to buy has now been lost. This will show up in the trade figures of the rich countries. They may not be impoverished to the same extent, but they will not prosper as much as they used to.

42. Today we are seeing that the whole world is becoming adversely affected by currency trading. Getting the world back on its economic feet is going to be extremely difficult. It will take a long time.

43. A world that is poor is no good to the business community. An APEC region that is largely poor will not be good for the economies of Asia Pacific countries or the rest of the world.

44. We are rushing onward towards globalisation simply because we cannot isolate ourselves from each other any more. There is nothing that is so inherently good that it cannot be abused to deliver what is bad. Democracy for example is good but some democratic countries seem never able to have a viable Government. All the great religions of the world are good, but their adherents fight and kill each other despite being urged to be brothers. Globalisation too is good but it can be abused, abused in such a way that instead of worldwide prosperity there will be worldwide poverty or extreme disparities between rich

and poor, international and civil disorders, revolts, rebellion and all kinds of crisis.

45. Globalisation can bring about a better world if we are not fanatical about it. Not everything that is done in the name of globalisation will give good results. We should always be on the lookout for adverse consequences and be prepared to take corrective actions or even to reverse certain globalisation trends in order to ensure that these adverse consequences will not befall us.

46. Currency speculation and the rapid flow of investment capital in and out of countries may be compatible with globalisation. But we have seen how much harm they can do to the economies of the developing countries. When we see these things we must be prepared to take corrective measures to reverse the process. It is not the system that has to be adhered to. It is the results which count. If the results are good, by all means embrace the particular manifestation of globalisation. If on the other hand the results are bad, and in the case of currency trading they are bad, then we should reexamine the system and be prepared to jettison that expression of the system.

47. We must proceed cautiously with globalisation. The countries of APEC are not equally developed. Any competition between them will not be fair competition even if the playing fields are level. Handicaps must be given so the weaknesses can be compensated.

48. When a country or an economy feels that it is not going to be overwhelmed by the massive strength of a competitor, when an economy's handicap is recognised and compensated for, then there will be confidence and a willingness to open up. Growth can then take place and regeneration made possible.

49. We should not reject globalisation. It is coming. It has to come to this shrinking world. But the big and the powerful can be magnanimous and accord the small and the weak time and latitude to prepare and to make adjustments.

50. Creative destruction is not the way. We can build on what we have instead of destroying and expecting phoenix to rise from the ashes. It may not rise at all or it may take too long a time.

51. APEC is a segment of the global community. It can provide a model for the regeneration of the global village. We are passing through difficult times and we need the lessons of experience. The East Asian members of APEC can provide the experience and we all can help devise the right formula to restore confidence, regenerate growth and manage globalisation better.