

The World Economic Forum Working Lunch

Davos, Switzerland 29 January 1999

" MALAYSIA: BOUNCING BACK FROM THE BRINK "

Malaysia has gone through three great crises since the Second World War. We have bounced back twice. We will bounce back again, God willing.

2. The first was a war against Communist guerillas bent on setting up a Communist Republic in Malaysia. We defeated them.
3. Malaysia's second great post-War crisis occurred with race riots in Kuala Lumpur in May 1969.
4. Parliamentary democracy had to be suspended. But within 18 months everything was back to normal.
5. To ensure there would be no recurrence of such riots we implemented a New Economic Policy (NEP) aimed at eradicating poverty regardless of race and the elimination of the identification of race with economic functions.
6. As with all Southeast Asian countries Malaysia has citizens of Chinese origin who dominated the economy almost entirely. The NEP helped the indigenous people to catch up with the Chinese. It was not a Robin Hood operation. Redistribution was to be from new wealth created through well-planned economic growth policies of the Government. As for poverty, it was reduced from 50 percent to seven percent in 30 years of the NEP.
7. You may note that we did not choose the Socialist or the Communist approach. We could have nationalised by expropriating from the rich Chinese. But we preferred the free market and affirmative action; something that is not easy to implement.
8. The NEP has benefited every single indigenous people of Malaysia, each of course according to his capacity. Naturally some seem to benefit more than others. But there is no society in the world where there is absolute equality -- not even in the Communist world.
9. The non-indigenous people including the Chinese also benefitted.
10. Let me now turn to our third great crisis, which we are still experiencing now. Two weeks before the crisis started Malaysia was described by Mr. Camdessus of the IMF as, and I quote "a good example where the authorities are well aware of the challenges of managing the pressures that result from high growth and of maintaining a sound financial system amid capital flows and a booming property market" unquote. Yet the country went into financial turmoil together with other East Asian countries as its currency was rapidly devalued by the currency traders.
11. Instead of blaming the currency manipulators, the Government was blamed.

The Governments of East Asia are all said to be corrupt, practised cronyism and nepotism and are not transparent. There is no doubt that to varying degrees they were. But despite this, these Governments were able to develop their countries so fast that they were described as miracle economies. If their weaknesses were the cause they could never have performed these miracles. They would have collapsed long ago. But they collapsed only in July 1997 when their currencies were deliberately devalued by currency traders bent on making money for themselves.

12. We are not taken in by the claim that the market is disciplining Governments. If there is no money to be made they wouldn't care less if these Governments are run by bandits. The market is made up of very greedy people who just want to make money for themselves without regard for the misery they cause the poor people in developing countries.

13. Devaluing currencies can give huge profits for the currency traders but it is a sure way to impoverish people and countries and destroy economies. If deliberate currency devaluation is accompanied by attacks on the stock market the result is even worse. Even the great United States of America would go under if the dollar is devalued by 50 percent and Dow Jones plummet to two thousand points. Someone should do a sensitivity analysis of some of the giant corporations of the USA under these conditions.

14. In Malaysia the currency was devalued by 80 percent at times and the stock market index went down from 1200 to 260, wiping out almost US\$300 billion in market capitalisation.

15. On top of this the IMF used its Malaysian cronies to force interest rates to be raised, to squeeze credit and shorten the period for loans to be declared non performing.

16. It was suggested that high interest rates would keep our money out of the hands of the currency traders. Instead it flowed massively to Singapore, where even higher interest rates were offered. The currency traders needed to borrow the money only for short periods and did not mind the high interests. They kept on devaluing the currency while Malaysia ran short of credit.

17. The economy went into a tailspin. Malaysia was going bankrupt. The foreign observers happily predicted that Malaysia must soon ask for IMF loans and accept IMF control. That means Malaysia must allow foreigners to take over Malaysian banks, privatised utilities and businesses. The longer Malaysia balked the lower will the shares fall and the cheaper will it be for foreigners to pick up the distressed Malaysian corporations.

18. We appealed to the IMF and the World Bank to curb the activities of the currency traders. But Mr Camdessus merely wrote to say that currency trading is so huge and involved the great banks of the West that nothing could be done to regulate currency trading.

19. We could not understand it. To us it was obvious that currency trading is at

the root of practically all financial turmoils. With hundreds of billions in terms of purchasing power of the East lost, world trade and the world's economy must suffer. But it seems the rights of the currency traders are more important than the economy of the world. They must not be frustrated in any way.

20. It would seem that the system has become more important than the result. It has become a religion and must be upheld even if it destroys everything. The world's economy is not as important as the free markets and the rights of the currency traders.

21. Malaysia is small. Its economy is not important to the world. Whether we are destroyed or not does not matter. Whether our people are hungry or they riot and self-destruct is of no concern to the world.

22. Since this is the attitude of the world, Malaysia would be wasting its time hoping for the world community to restructure the international financial system merely to help us out. We Malaysians have to take independent action in order to protect our interests.

23. Since we believe that the currency traders and the stock market speculators were responsible for what happened to our economy, the logical thing to do is to put a stop to their activities as they affected our country. And so we put in place selective exchange control designed specifically to prevent the currency traders from getting hold of our Ringgit. The Ringgit was therefore made worthless outside of Malaysia and may not be brought back into Malaysia one month after controls were imposed.

24. Trade is to be conducted in foreign currencies. Exports must exceed imports if there is to be enough foreign currencies to pay for imports. Within the country the foreign currency can be converted to Ringgit at 3.8 Ringgit to US\$1.00 or equivalent and vice versa. Conversion is only for payments for imports. Within four months of controls reserves rose by 35 percent to US\$27 billion. As all export earnings are sold to the Central Bank, the money in circulation has also increased.

25. The Malaysian stock market was peculiar in that much of the trading was done in Singapore through an over the counter market operated by the Singapore Stock Exchange. Although shares traded there were illegal according to Malaysian law and were not recorded in the Kuala Lumpur Stock Exchange (KLSE) they nevertheless affected the Kuala Lumpur Composite Index.

26. Short-selling in Singapore rapidly pushed down the Composite Index. All the Malaysian banks and corporations went into a state of distress, unable to repay loans or to borrow money to finance their businesses. Unless the trading in Singapore is stopped, Malaysian banks and companies would go bankrupt and we would be forced to let foreigners take over all our businesses. We Malaysians would be mere workers in foreign-owned companies.

27. To stop this we required all share trading to be made through the KLSE. In addition capital invested in the stock market must stay in the country for at least

one year. This effectively stopped share manipulations. At the time when the controls were imposed the Composite Index had gone down from 1200 to 260. It has now risen to about 600. Companies are now able to service loans and borrow again and businesses have largely revived.

28. Free from the threat of devaluation by the currency traders, interest rates have been lowered. The return of the Ringgit from abroad helped increase liquidity. An asset management company has bought the non- performing loans while a special purpose vehicle was set up to recapitalise the banks.

29. When Malaysia introduced these selective controls there was almost universal condemnation. We were told we would fail or at best the relief would be temporary. The international media as usual accused the Malaysian Government of imposing controls to save the cronies and the family members of the Prime Minister. They even hinted that the people would rise and overthrow the Government.

30. I would like to invite all of you to Malaysia to see whether controls have harmed Malaysia. Talk to the average Malaysians, not just to the few who are anti- Government. Find out if the people are interested in rioting and overthrowing the Government. Meet the managers of 100 percent foreign-owned industries and ask them how they are doing.

31. I ask you to come and see for yourself because apart from the currency traders and stock market raiders, we have also to contend with a hostile Western media. They distort all reports on Malaysia. If you depend on them you will never know the truth. They are not above fabricating stories if they are against you. And they don' t like countries which refuse to "kowtow" to them. In other words they deny others free speech while they preach the sanctity of free speech for themselves. We know of cancellations by hundreds of tourists because Malaysia is described by them as a war zone. Power it seems has corrupted the press. Ironically in the Information Age the only way to get real information is to go see for yourself.

32. However if you care to believe, I would like to point out that since controls were imposed in September 1998, the results have been very gratifying. Businesses have been revived and are doing fairly well. As the share prices have gone up, the Non Performing Loans (NPLs) have reduced and companies and banks are healthy again.

33. The repatriation of the Malaysian Ringgit has enabled us to recapitalise the banks and purchase the NPLs without foreign loans. Retrenchment is minimal. In fact statistically we still have zero unemployment.

34. Inflation is only 1.5 percent above the average yearly inflation rate. There is no shortage of food or medicine or fuel. The supermarkets are well-stocked with everything including imported foods. There are no riots and you can travel anywhere in safety.

35. Whereas for almost a decade there had been a deficit in the balance of

payment, now there is a huge surplus. Reserves have gone up from US\$20 billion to US\$27 billion, sufficient to sustain over five months of retained imports.

36. Property and motor vehicle sales have shot up. And all other indicators show an economy which is recovering.

37. There may be other reasons for recovery but there can be no doubt that currency and capital controls play a very major role. It cannot be a coincidence that the healthy economic indicators began to show almost immediately after controls were imposed in September 1998.

38. Those who do not condemn the controls outright ask us when we would lift it. They admit that controls have helped to stabilise and revive the Malaysian economy but they insist that they are retrogressive steps. Now that stability has been achieved the controls should be removed.

39. We see no reason to remove currency control now. The experience of Latin countries show that as soon as their economies recover from the effects of attacks on their currencies, the currency traders would launch another attack with equally disastrous results. Clearly as long as the international financial regime allows the currency traders to devalue currencies, there is no guarantee that they will cease and desist simply because financial reforms have been carried out faithfully by Governments. The currency traders are not interested in the good behaviour of Governments. They are only interested in there being sufficient wealth to rob. Countries with worse Governments are left free of attacks if they are too poor to be robbed through currency devaluation.

40. The controls will therefore remain in place until the International Community devises a new financial regime which curbs the activities of currency traders.

41. Currency trading has served no good purpose as far as the world' s economy is concerned. It may enrich a few rich capitalists in developed countries but it does so at the expense of relatively poor countries and their poor people. Today millions in East Asia are starving or have only one meal a day, are unable to afford medical treatment or milk for their children. You may want to blame the Governments for this catastrophe but before the currency devaluation these things did not happen.

42. The IMF, the media and the rating agencies are all culpable but not initially. It is the currency traders who are the true culprits who caused the destruction of the economies of East Asia, of Latin America, of Russia and of the world. Trillions of dollars in terms of purchasing power and in real terms have been lost. The currency traders have destroyed huge amounts of the wealth of the world in order to make a relatively small profit for themselves.

43. In Hong Kong in 1997 I blamed the currency traders. I have no reason to change my mind. The world can do without their destructive cattle-like behaviour. If they cannot be done away with they should at least be regulated. Governments which harbour them and claim that they cannot control them should resign or be

overthrown.

44. The 21st Century should be a better century than the 20th. In the 20th Century we saw the invention of ever more destructive weapons of war. We are now seeing newer weapons of war, namely financial and economic weapons. And they are no less destructive, no less lethal than the rockets and the bombs.

45. If the world really believes in peace, in democracy, in justice for all, destroy or curb currency trading. Then and then only will we see a revival of the world' s economy and an equitable distribution of wealth.

46. Malaysia is bouncing back from the brink. But I must admit that as a small trading nation the extent it bounces back depends on the world' s economy. We will not recover fully if the world does not recover, and it will not recover if it regards capitalism as a religion.