

The Symposium Of The First Anniversary Of Currency Control

The Nikko Hotel, Kuala Lumpur 2 September 1999

"Why Malaysia's Selective Currency Controls Are Necessary and Why They Have Worked"

Please let me add my words of welcome to this international symposium on currency controls and Asian monetary cooperation.

2. My task is to talk about the strong but selective currency controls which Malaysia imposed exactly one year and one day ago.
3. After such an incredibly momentous 366 days, I can make no better introduction than to remind you that what is now the past was once the future.
4. That future then was a most uncertain one. For all of Southeast Asia and most of East Asia it was a most threatening, devastating and gloomy future.
5. Many had been driven to desperation and despair. Confidence was in even shorter supply than capital. Many believed that we would all collapse.
6. We were told each and every day, many times a day -- sometimes by the very same people who had so shortly before told us that we were dragons and tigers -- that we had suddenly all become either lame ducks or dead ducks.
7. I can do no better than to start by turning your minds back to this time just a year ago.
8. After more than one year of devastation, much of East Asia was in ruins. There was little hope for the future. There was no light at the end of the tunnel. In fact the tunnel seemed to be without end.
9. Every day brought news worse than the day before. When something bad happened in Thailand or China, our stock markets fell; our currencies shook. When something unfortunate occurred in Indonesia or Hong Kong, our stock markets took a beating; our currencies were pummeled. When something untoward happened in South Korea or Japan, our stock markets quaked; our currencies were hammered. When Malaysia contributed our own share of bad news, the stock markets of our regional neighbours fell; their currencies shook.
10. The explanations were simple. Seldom were more than two words necessary: 'regional contagion', 'herd instinct', 'crony capitalism', 'corporate governance', 'vicious circle', 'financial panic'.
11. For some reason which I don't understand Malaysia was least liked by certain quarters. Besides the attacks against our economy, it was made obvious to us that the Government should either be overthrown or the Prime Minister at least should get lost.
12. But for Asia, Mr Alan Greenspan the most powerful man in the world issued

a ' blunt warning' that Asia' s economies were continuing to weaken. ' The evidence we have to date' , Mr Greenspan said on July 22nd 1998, ' still exhibit no evidence of stabilisation' . Indeed, he noted, ' The most recent data still exhibit deterioration' . The man who warned about ' irrational exuberance' when the Dow Industrial Average was at 6,600 also warned that a sharp US stock market drop was inevitable at some point. Not ' possible' . Not ' likely' . But ' inevitable' .

13. Back to Malaysia, one day after we unveiled our National Economic Recovery Plan, which set out more than 200 reforms and transformation measures, on the very eve of the departure of the Malaysia road show intended to raise two billion US Dollar in bonds -- Moody' s showed its immaculate timing and not so immaculate predisposition by downgrading Malaysia' s sovereign debt rating to just above junk bond status.

14. The very next day, Standard and Poor' s did the same.

15. It was no surprise that the Kuala Lumpur Stock Exchange (KLSE) plummeted to a nine-year low. The Ringgit came under heavy pressure. The bond exercise was, of course, aborted.

16. Let me paint for you the background of news and events against which the decision to impose our strong if selective currency controls was made. To simplify and shorten it I will merely read to you some of the headlines of the international press, starting from July 3rd, 1998. For obvious technical reasons, I cannot quote to you the much more colourful and punchy TV headlines.

17. On August 3rd: The Nikkei Weekly reported that ' Looting, destruction stagger Indonesia' .

- The Financial Times headlined ' Gloom over the Philippines' short-term prospects' .

- The International Herald Tribune reported that ' South Korean Exports Fell by 13.7 per cent in July

-- Concern Grows That Recession May Deepen' . In the same issue, the IHT carried a feature which suggested that China would devalue:-

(i) if the Yen collapsed;

(ii) if China' s growth rate were to falter and;

(iii) if there was pressure from Chinese exporters.

- Many news reports and analyses from the world media followed on the collapsing Yen, on the faltering China growth rate and on China' s loss of export competitiveness.

18. On August 3rd also, The Asian Wall Street Journal reported: ' Japan' s Jobless Rate Rose To a Record 4.3 per cent in June' . Business Week' s story on Malaysia was headlined: ' Suddenly, Companies Are Falling Like Coconuts -- A

rising tide of bankruptcies threatens to engulf the Malaysian economy' . Whether we would die from brain concussion arising from falling coconuts or from mere drowning by the ' rising tide of bankruptcies' was not made clear.

19. On August 3rd, the IHT also ran a story headlined ' What If the Worst Happens in Asia? Not So Bad' . This article reported the finding of ' respected economists' at Standard & Poor' s that under a ' worst-case scenario' in which Japan' s economy shrinks by 10 per cent, in which China' s economic growth rate falls from eight per cent to one per cent, and in which Indonesia lapses into default on its foreign debts, the United States would experience only a ' mild recession' .

20. Let me read to you some of the headlines of August 4: Tokyo (stock market/currency) fall hits Asia Markets' -- The Financial Times. ' China demands Indonesia act on riot racism' -- The Financial Times. ' Hong Kong Hurtles Towards Recession' -- IHT. ' China to Fight Deflation With Spending' -- IHT. ' Yen Falls to 7-Week Low Against Dollar' -- Asian Wall Street Journal. ' (Malaysian) Stocks Face Fall if Malaysia Is Axed From (Morgan Stanley) EAFE Index' .

21. On August 5, The IHT reported: ' Concern Over Yuan Hits Stocks in China' and ' Seoul Earmarks State-Owned Firms to Be Sold' .

22. On August 6, The IHT reported that the ' East Asian Trade Slump Adds to Economic Woes' . The Asian Wall Street Journal reported ' Thailand – Surge in Business Failures' . The Financial Times announced that ' Japanese consumption slumps by 3.1 per cent' and that ' Shanghai foreign currency rise highlights fears of (Yuan) devaluation' .

23. Against this background, on August 6, 1998, after months of detailed discussion and more than two dozen meetings, full and complete consensus was finally reached that Malaysia had to abandon 30 years of committed currency orthodoxy. At exactly 10 minutes past 10 on August 6, 70 minutes into the regular daily morning meeting of the Executive Committee of the crisis-management National Economic Action Council, the decision was finally made to impose strong but selective currency control.

24. The date of implementation was still open but it was decided that the Malaysian currency should no longer be available to currency traders to manipulate the exchange rate. The Government would fix the rate according to its own wisdom.

25. Since the share market was also being manipulated through short-selling activities, it was decided that the repatriation of foreign equity investments should not be allowed until one year after the investments are made. However it would not be possible to implement this decision if the illegal market in Singapore, the Central Limit Order Book (CLOB), was not stopped. By using nominee companies sales on the CLOB could avoid registration with the KLSE. Thus shares could still be borrowed and short-sold. To stop CLOB all shares are required to be registered in the name of the actual owners with the KLSE.

Ownership by nominee companies was not recognised and any change of ownership not registered on the KLSE would be considered illegal.

26. However direct foreign investments in productive capacities in the country were exempted from the ban on repatriation of either capital or profits.

27. After August 6, the unanimous decision could have been changed or amended.

28. But there was absolutely no reason for doing so. Indeed, everything seemed to justify the urgent necessity for insulating the Malaysian Ringgit from currency speculation and attack and of guaranteeing rock-solid currency stability.

29. On August 7: The IHT reported that ' Fears Grow of Beijing Devaluation -- Yuan Falls to 5-Year Low in Black-Market Trading' . The Financial Times reported: ' Hong Kong stock market at three and the half year low -- speculators worry over authorities' commitment to US Dollar peg and China' s pledge not to devalue' .

30. In their week-end issue which came out on August 8: The Asian Wall Street Journal reported that ' In Asia, Worst for Economies is Seen Ahead' . On its leader page, the ASWJ ran a feature on ' Beijing' s Choice: Preserve Stability or the Yuan' . The IHT argued: ' Financial Crisis Straining Asian Neighbors' Political Ties' . On another page, the IHT headline read: ' Vietnam Devalues Dong by 7 Per Cent' ; and ' Speculators Intensify Attack on Asian Money -- Yuan and Hong Kong Dollar Face Pressure' . The Financial Times reported: ' Dealers in China Rush to US Dollars' .

31. Thank goodness for Sundays, when the global news media try to take a break. But by Monday, August 10, the horrible news was back. The Financial Times reported: ' Malaysian race rumours spark fears' . Those who were not here but who know Malaysia might be reminded that this was a story not on Malay-Chinese or on Chinese-Indian or on Malay-Indian problems but about a possible outbreak between Malaysians and illegal Indonesian workers; hardly ' racial' I would have thought.

32. On August 10, the cheerful news from the Asian Wall Street Journal was that: ' Investors Expect That Asia Stocks Will Drop More' . This despite the fact that in the preceding week stocks plunged a further 12 per cent in Jakarta; a further 9.9 per cent in Manila, a further 9.6 per cent in Kuala Lumpur; and a further 7.2 per cent in Hong Kong. The AWSJ noted that Tokyo fell by only 3.4 per cent.

33. Let me give you some other news headlines which appeared on August 10, 11 and 12: ' Obuchi Issues Call to Action on the Economy -- First Policy Statement Generates Scant Praise; Financial Markets Fall' . ' Obuchi Admits to Prolonged Slump' ; ' No Confidence in Japan' ; ' Critics Attack Japan Banking Plan' ; ' Korean Earnings Reports Won' t Be Pretty' ; ' Currency Worries: Attack by Hedge Funds has run into domestic factors in (Hong Kong)' ; ' Hard time for HK -- and set to get worse' ; ' Yen Hits 8-Year Low as Fears Mount' ; ' Concern Grows Over Hong

Kong Dollar' ; ' China' s Central Bank Says It Won' t Devalue Yuan' .

34. I also most sincerely apologise for not citing the headlines which chronicle the human and social costs of the Asian crisis. To make an economic or financial or monetary decision without considering the grave human and social consequences is more than stupid. It is criminal. And I say this no matter how many economics Ph.D' s and financial whiz kids say that they cannot be concerned about the non-economic and the non-financial and the non-monetary matters.

35. I certainly am surprised how merely reading, today, the headlines of a year ago provides eloquent testimony to the dire economic and financial and monetary uncertainties of this time last year.

36. As you well know, on August 14, 1998, Hong Kong, the bastion of free market laissez faire capitalism, decided to frustrate the stock market and currency manipulators by buying heavily on the Hong Kong Stock Market.

37. Currency turmoil hit Latin America. Russia defaulted and some famous people lost billions. LTCM, despite having two economics nobel laureates, a while later also lost a great deal of money and had to be bailed out by friends in high places. As you well know Asia went through further hell before it could, finally, embark on the road to recovery.

38. I have sketched for you the international background against which the decision was made: the sea of turbulence from which it was natural for a small tempest-tossed boat to seek refuge -- by retreating to a quiet bay of tranquility.

39. Let me now mention to you Malaysia' s own background of experience, failure and crisis.

40. The fact is that we tried practically everything. And everything we tried had failed.

41. As you know, at the beginning, along with the rest of the world, we underestimated the severity of the effects following the Baht crisis which started on July 2, 1997. Everyone, from the IMF down, did not foresee the severity of the so-called regional contagion.

42. In mid-June, 1997, Malaysia had received an A+ report card from Mr Michel Camdessus himself. We were, understandably, very confident we were not ' Mexico' or ' Thailand' . So confident, in fact, that we quickly and without reservation pledged one billion US Dollar in financial assistance to Thailand, doubling Australia' s initial 500 million US Dollar pledge. We later pledged another one billion US Dollar to Indonesia.

43. Then, the stock market began to collapse in earnest, as did the Malaysian Ringgit. The real economy -- those who produced real goods and services rather than financial instruments -- followed in train.

44. When the real economy started to collapse, we made a horrible mistake. We adopted what has been called ' the IMF package without the IMF' . It was very macho.

45. I felt that I should and not comment other people' s economic risk management. Now I wish I had not resisted my gut feelings. But then this was the way the great minds had devised to deal with such a crisis.

46. Once crisis struck, domestic demand and investment had to be buttressed. So what did we do? Under the finest IMF advice, we decided not to buttress but to cut Government fiscal spending by 21 per cent. This was the single most devastating mistake. But we were so very obedient.

47. We should have decided on a deficit budget, something we could well afford after years of budgetary surpluses. But we again followed the finest IMF advice. We went for another budget surplus.

48. We should have left the banks alone. Instead we told them to stop using the 6-month non-performing-loan regime and told them to adopt a 3-month NPL regime. With that we helped to strangle businesses earlier.

49. But that was not quite enough. We told them not to lend money for so-called non productive activities. And the banks stopped lending altogether. It seems nothing was productive any more to them.

50. We were told that the market would not see the return of confidence until they saw blood. They want to see our businesses crushed and exsanguinated. We obliged but it was never enough. Blood, more blood must be spilt.

51. Bleeding profusely, we nevertheless wondered why we were getting weaker. And why was there still no return of that precious commodity called confidence.

52. Instead of holding or even reducing interest rates, we decided to raise the cost of borrowing to levels no business could survive. Not surprisingly, many businesses grounded to a halt.

53. When business comes to a halt, an economy drops like a stone. This is what happened. The Malaysian economy dropped like a stone.

54. From the very beginning, I was accused by the foreign Press of ' being in denial' . I admit I did harbour different views as to the causes of the economic turmoil. Not accepting the accepted views apparently translates into being ' in denial' . I must not single out the foreign press alone. Some local pundits too echoed the ' being in denial' accusation.

55. What were the choices before us? If we did not push interest rates further to the sky, large amounts of Malaysian Ringgit would move to Singapore, where depositors could secure up to a 35 per cent return. Depositors apparently did not mind their Ringgit getting devalued by speculators as long as they earn high returns on their deposits. And so the Ringgit flowed out and left the local banks

without money to lend. The speculators borrowed, short-sold and devalued the Ringgit further.

56. But if we try to compete with Singapore and push interest rate higher, our businesses would simply stop doing business. The real economy goes through the floor.

57. This was exactly what happened. When we made the decision on currency controls on August 6, we knew that our GDP in the second quarter of 1998 would contract massively, to a level not seen since the birth of Malaysia.

58. Our currency had already fallen from 2.5 Ringgit to the US Dollar to 4.8 Ringgit to the US Dollar at one time. Inflation, unprecedented inflation set in. And even as the cost of living shoots up more people will lose their jobs and incomes. Social turmoil must follow and obviously political instability as well. Malaysia imported almost 80 billion US Dollars worth of goods and services. At four Ringgit to one US Dollar the loss of purchasing power was 48 billion Dollars.

59. The stock market index plunged from more than 1000 to 262 by end of August 1998. Market capitalisation of more than 800 billion Ringgit was reduced to under 300 billion. For the banks and the companies this loss was real. Margin calls could not be met and banks stopped lending to stricken companies, aggravating an already bad business situation. The foreign observers almost openly gloated over the company failures. It was good. They were bleeding. Soon the Government bereft of corporate taxes would bleed as well. And what will it do? Turn to the IMF for help of course.

60. But the IMF had not done anything worthwhile for other beleaguered economies in East Asia. All it did was to change creditors. They still owe money and their currencies could still devalue, their stock markets plunge. Additionally they have to surrender the direction of their economies to foreign masters, people who could only see revival of the ability to pay foreign debts as the sole objective of having a Government. The people may starve, they may riot and loot and kill. These are irrelevant as long as foreign debts are paid. The IMF with its limited stock of remedies is no alternative.

61. We wanted to borrow from the market but as I mentioned earlier the great rating agencies, in their desire to protect us from being permanent debtors, downrated our credit rating so that borrowing from the market would simply aggravate our problems.

62. In a free market economy the well-being of the Government and therefore the nation depends on the success or failure of the private sector. If one company fails, or even a small group fails, Governments can find ways and means to compensate. But when all the banks and all the companies fail, there is no way the Government can finance itself. It will fail also. There would be social and political instability and probably anarchy. Governments cannot therefore allow businesses to fail en masse. Yet that was what was happening consequent upon the devaluation of the currency and plummeting share prices.

The free market is a great system. It can contribute towards economic growth and the betterment of the people. But it can be abused and when it is abused, the economy can be totally destroyed and innocent people made to suffer.

63. We in Malaysia subscribe to the free market system but it is not a religion with us. It is just an economic system devised by imperfect man. While we should try to adhere to it closely, we see no reason to accept everything done in its name when we no longer reap any benefit from it. A system is only as good as the result it delivers. After all it was the belief that the system would deliver the result which led to its formulation. If it does not deliver must we still blindly adhere to the system?

64. When the free market system was evolving no one designed it for currency traders to make massive windfall profits overnight. It was designed for fair competition between equals, for trade in real goods and services, for free flow of investments to where capital was needed and profits from commercial activities can be made. No one declared that currencies should be regarded as commodities and traded like sugar or wheat or coffee. Currency was just a facilitator of trade, a way of doing away with cumbersome barter trading or payment in precious metal.

65. Without currency trading the free market can still function. Indeed for a long long time there was no currency trading while the world traded and grew economically. Fixed exchange rates enabled values to be attached to goods and services. Occasional disruptions can occur when Governments change the exchange rate of their currencies but the damage to world trade was nothing compared to the last two years of economic turmoil worldwide. We in Malaysia feel that we are not being disloyal to the free market if we disallow currency trading. Our real trade should not be affected nor should foreign investment in productive capacities suffer.

66. But the Malaysian economy also suffered from excessive manipulation of the stock market, in particular short selling. This particular stock market activity is normally acceptable but when big players with the capacity to move the stock prices up or down at will become involved, it is no longer speculation. It is nothing more than manipulation. Just as insider trading is not allowed, we don't see any reason why market manipulation should be allowed.

67. Government had stopped short-selling on the KLSE but Singapore had set up an illegal offshore market over which the Malaysian Government had no control. If the Malaysian economy was to be stabilised then the operation of CLOB had to be stopped.

68. And so on September 1st 1998 Malaysia stopped the trading in the Ringgit and the operations of CLOB. Ringgits resident outside Malaysia in whatever form would become invalid unless repatriated within one month of the date. Capital invested in Malaysia shares may not leave the country for one year, although other capital invested in Malaysia may move in and out freely. Profits may be repatriated freely also.

69. From the foreign currency speculators, foreign equity investors, foreign free market economists, and the English-language world press there were only three types of reaction: -abuse, undiluted and constant; -abuse in the guise of intellectual discourse; and -abuse in the form of unsolicited and free advice.

70. My friend, the great George Soros, called our September 1st measures 'outrageous'. Given his world-view and the need to make money from large currency movements it was no doubt 'outrageous'.

71. Business Week labeled Malaysia a 'Renegade Economy'.

72. The New York Times reported a senior Clinton administration official as saying that the turn of events in Malaysia was 'a tragedy'. Our measures would, he said, be a 'spectacular failure'.

73. Time magazine quoted a Bangkok-based expert as saying: 'Mahathir is turning Malaysia into a Burma. It will create a black market for the currency, and there will be a panic in the country to buy US Dollars'.

74. The erudite Business Week said that the measures could 'run down foreign reserves, making devaluation likely and prompting trade restrictions'. The great economist Milton Friedman told the world that Malaysia's move was 'the worst possible choice'.

75. The great International Herald Tribune proclaimed that 'Malaysia last week shut the door on the global economy'. Pretty strong stuff.

76. A London-based analyst said that Malaysia was suffering from an 'IQ crisis'. This, I am sure, must be a reference to the fact that we do not have two economics nobel laureates advising us. It can not be a reference to the suggestion, very often made, which I am sure is true, that 'What Dr. Mahathir knows about economics can be written on the back of a postage stamp'.

77. Abuse from the foreign currency speculators and manipulators who could no longer make money out of the misery of the Ringgit I can understand. Abuse from the foreign equity investors who had to wait for one year, I can fully understand. Abuse from the free market economists I can also fully comprehend. After all, we were challenging a sacred commandment. But the abuse from the English-language world press is a little puzzling.

78. As you will no doubt have noticed, the first line of argument marshalled against us was that we were absolute idiots. Disaster would immediately strike. Malaysia was 'kaput'. Finished.

79. Then, when it was clear that disaster had not struck, that Malaysia was not 'kaput', not finished, we saw the argument that whilst death was not at hand, the Malaysian economy would be crippled. The medium-term effects would be enormous.

80. When it has become clear that Malaysia had succeeded and was well on the

road to recovery, the latest line of argument is that Malaysia' s accomplishments are clear but that the IMF-assisted economies have done as well as we have without having to resort to currency controls.

81. The proponents of this line of argument seem to have had a blind logical spot. If they can argue that the others have achieved comparable results without having to adopt currency controls, can it not be argued that we have achieved what others have achieved without having had to go through: the misery of massive unemployment; the tragedy of children thrown out of schools; the decimation of the middle class which we have spent a generation to build; blood on the streets and political turmoil throughout the land.

82. We have been able to achieve what others have achieved: without having to go into massive debt; without saddling future generations with massive debt-servicing burdens; without having to sell our family silver and our precious heirlooms; without having to auction off our precious corporations to foreigners at fire-sale prices; and without having to bend and to bow to anyone; without having to kiss anyone' s feet.

83. Most assuredly, what we think are deeply important to us may not be equally important to others. The economies of East Asia are all different. Comparisons are often difficult and unfair. But most surely each country has the right to decide on its priorities and to choose its own path to recovery.

84. And most obviously, the unorthodox, bold and strong measures which we took 366 days ago has borne fruit.

85. We were told that there would be massive capital flight one way or another. People would be breaking doors trying to get their hands on US Dollars. Interest rates would be forced up because of a severe shortage in liquidity. There would be a black market in every nook and corner. There would be massive over-bureaucratisation as an army of civil servants would be needed to administer the system. Corruption would run rampant as Malaysians and Malaysian businesses buy their needed supply of hard currencies, which would, of course, be in short supply. Exporters would under- declare their exports. Importers would over-declare their imports. Transfer pricing would run riot. The Ringgit would not be able to stabilise. Indeed, it would be forced to devalue. Needless to say, the stock market would go into a further tailspin. Malaysian shares would not be worth one cent.

86. To this day, there are the most erudite economists who can find in their imagination the currency black market that none of us have been able to find. The Ringgit has remained rock solid. In fact, if there are ' fears' , the ' fear' and the widespread expectation is that the Ringgit would strengthen.

87. As for the stock market, I might just mention that at the end of August 1998, before anyone got the whiff on our currency measures, the Kuala Lumpur Composite Index stood at 302. By the first week of July 1999, it had shot past the 870 mark. It has since corrected. I have every confidence that it will shortly

begin its upward march once again.

88. One year ago, the market capitalisation of the shares on the KLSE was under RM300 billion. It now stands at more than RM500 billion. More than RM250 billion has been created. The 'wealth effect' has found its way through the economy.

89. As for the crucial interest rate, in August 1998 the base lending rate was 11.7 per cent. Today, it is below seven per cent.

90. In August 1998, our exports stood at 5.79 billion US Dollar, minus 17.8 per cent on an annualised, year on year basis. In June this year, it rose to 6.9 billion US Dollar, plus 17.8 per cent on an annualised year on year basis. Our export performance has surpassed that of any other economy in East Asia.

91. In August 1998, our external reserves was 20 billion US Dollar. By the end of July this year, this had increased to 32 billion US Dollar, an increase of 60 per cent over a period of 11 months.

92. In August last year, we had enough to finance four months of retained imports. By July, our external reserves were sufficient for seven months of retained imports.

93. I am sorry to disappoint our critics. We were, we are, and we do not expect to be short of foreign exchange. We were, we are and we do not expect to be short on liquidity. And with the third highest savings rate in the world -- in excess of 40 per cent of GDP -- we are in no way dependent on straight foreign capital, although we of course love foreign direct investment.

94. In August 1998, our inflation rate stood at 5.6 per cent. In June this year, this had plummeted to 2.1 per cent. The Producer Price Index was a plus 14.5 per cent in August. It had plummeted to minus 6.7 per cent in June.

95. The number of new monthly job retrenchments has fallen from 7,125 in August to 1,580 in July, four and a half times lower.

96. On the other hand, the number of job vacancies has jumped from 6,005 in August to 9,711 in July.

97. As for the banking sector, please note that the average risk-weighted capital adequacy ratio of the banks in Malaysia stood at 8.2 per cent in August 1998, which is within the international standards set by the Bank of International Settlements. In June of this year, the ratio stood at 12.7 per cent.

98. The non-performing loans of the banking system on a six months basis stood at 11.4 per cent in August 1998. Contrary to the expectations of the foreign experts, it did not shoot through the roof. Indeed, NPLs fell to 7.9 per cent in May this year.

99. On a three-month basis, NPLs stood at 12.8 per cent in September. I am sorry to confound those who think they know better. But NPLs on a three-month

basis stood at only 12.7 per cent in May. Compare this with the 30 per cent or 40 per cent or 50 per cent seen elsewhere.

100. The Manufacturing Production Index recorded a minus 14.5 per cent in August last year. In June this year, it recorded plus 12.4 per cent.

101. Sales of passenger cars have jumped from 13,701 in August 1998 to 20,141 in June 1999. Sales of motorcycles have jumped from 19,369 to 21,225. Sales of new commercial vehicles have jumped from 1,681 in August to 2,691 in July.

102. I can go on and on and on with the statistics. If you do not like or trust statistics, just visit the shops and the restaurants. Only, give yourself a little extra time -- because I am afraid the traffic jams have come back.

103. In the third quarter of 1998, we suffered massive negative growth. In the fourth quarter of 1998, we improved but the contraction was still double-digit. By the first quarter of this year, we had achieved a massive turn-around to minus 1.4 per cent growth, a remarkable turn-around when it is remembered that if not for a large minus seven per cent in January, when production was hit by the Muslim Eid-il-fitrī celebrations and the Chinese New Year, the first quarter would have seen positive growth.

104. I can tell you today that in the second quarter, we achieved 4.1 per cent growth.

105. On the ground, we know that we have made a massive recovery. Technically, because a recession is defined as two consecutive quarters of negative growth, we can now say that the great Malaysian economic recession of 1998 has come to an end.

106. We now receive the nicest praises, sometimes from the most unlikely places.

107. Mr Michael Dee, Managing Director of Morgan Stanley Dean Witter' s Asian debt capital markets said: ' The measures taken have → reduced its vulnerability to external shocks. Malaysia should be proud of its achievements as it did not use IMF' s recovery measures but stayed from it' .

108. Ann Ginsberg, Morgan Stanley Vice President and Senior Sovereign Credit Analyst says that: ' The controls have been used properly. In fact, it has made the country -- which has a healthy balance of payments -- more competitive' .

109. Margaret Kelly, Senior Advisor in the IMF' s Asia- Pacific Department has said that Malaysia ' has wisely used the breathing space provided by the controls' . Her number one boss, Mr Michel Camdessus, has said: ' I praise the way in which Malaysia has been able to adopt a soft system of controls' .

110. Mr Camdessus' s comment suggests one reason why our strong but selective currency controls were successful. It was indeed a soft system.

Contrary to what our critics assumed and stated, our measures were not 'draconian', not heavy-fisted, in no way punishing -- or even inconvenient. No bureaucracy was needed because the commercial banks did most of the work in the normal course of their business.

111. A second very important reason is the fact that we were successful in our export drive. The foreign exchange came in by the bucket. Contrary to the warnings of our detractors, there was no shortage of foreign exchange and there was no liquidity problem. We had to be firm but we had the wherewithal to operate what Mr Camdessus called 'a soft system of controls'. Malaysia was flushed with funds. I would not recommend any country to try exchange controls if they are going to fail to generate substantial trade surpluses.

112. A third reason for our success is the fact that we merely and very sincerely tried to guarantee the stability of the Malaysian Ringgit, not its value. We wanted a fixed rate, not a high rate for the Ringgit.

113. Fourth, we succeeded because we deliberately sought to stabilise the Ringgit at a reasonable level, not at an over-valued level -- for technical stabilisation reasons and because we always had our export and national competitiveness at the forefront of our minds. We certainly did not try to achieve a rate for the Ringgit which the fundamentals could not justify. Because the Ringgit was reasonably valued there was never a rush or a reason to convert to a foreign currency unnecessarily.

114. Another reason for the success of the measures we took was the fact that with this single bold step, confidence in the stock market, in the Malaysian Ringgit and in the real economy was quickly restored. Without this rapid, almost over-night restoration of confidence, we could not have succeeded. Had we seen riots in the streets, had we suffered political instability, confidence could not have returned.

115. Tied to the confidence and the optimism was the fact that our controls were selective. They took the most meticulous care not to in any way hinder trade or the repatriation of profits.

116. Foreign direct investors did not pull out. More foreign direct investment in fact flowed in. Not surprising since exports were booming. Investors laughing all the way to the bank do not close or reduce their operations. Even foreign equity investment recorded a substantial net increase as they chased profits on a fast rising stock market.

117. To be sure, some external factors helped a great deal. The hedge funds have beaten a hasty and forced retreat after the LTCM fiasco. Their backers and bankrollers have become much more cautious.

118. The currency stability in East Asia and the economic recovery of the East Asian economies has been a great help.

119. We were and are fortunate that no-one has followed or said that they intend

to follow Malaysia' s example. A heretic can be tolerated. But a heresy cannot. We would have been punished by global capitalism and by the powers that be had we spawned an intolerable heresy.

120. We are thankful for some external developments. But the fortuitous external factors detract not one jot from what we have been able to achieve on our own.

121. I cannot lavish enough praise on the experts and technicians whose commitment to Malaysia and belief in Malaysia never wavered and who made sure that there were no devils in the details.

122. Last but by no means least, I must fully acknowledge the pragmatism, the unity and the will of the Malaysian people -- from the worker to the entrepreneur, from the farmer to the civil servant -- all of whom knew that we were fighting for our life, who found the will and the way to stay united, to work and to fight together on the same team for the common objective of rapid national recovery.

123. They are Malaysia' s greatest secret of success. I salute them.