

The World Economic Forum

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ASIA'S ROAD TO RECOVERY: THE CHALLENGE OF PRAGMATISM

We meet to discuss a "New Asia", a "New Era" and how we can build this new Asia and this new era together, for the benefit of all. This is a most worthy theme. It is admirable in its objective; sensible in its approach. It is in keeping with the dictates of ethics and morality on the one hand and the all important task and duty of making money on the other.

2. Some of today's experts have "discovered" Asia only in recent months or years. But many in this room

-- including those from Europe, America and Australasia

-- know from their own personal experience that there have been many new Asias.

And there have been many new eras. This is because Asia has seen one transformation after another.

3. Especially over the last 50 years, we have been muddling through an incredible number of life- threatening, society-crunching political, security, economic and other crises. We have been muddling through with surprising regularity, often with the most surprising results.

4. We have been quite fast on our feet. We have re- invented ourselves over and over again, sometimes at breakneck speed. This is why we are where we are today.

5. We have of course learnt a great deal from Europe, from the United States and from each other in Asia. This process of learning from the best cannot end.

6. But contrary to those who seek the holy grail -- the single model, the simple path, the one standard formula, the one "secret" of Asia's success -- I believe that the various Asian societies have been inventing and re-inventing themselves according to different formulas at different times.

7. We have each taken our own unique paths to the so- called "Asian miracle". There has never been a single model. Unfortunately for the gurus and the other religious teachers of sacred management and economic texts -- who have to teach or to push "the one" sure formula for success -- Asia's history, Asia's experience and the real world in Asia has been somewhat un-obliging. It is unfortunate for the gurus but fortunate for Asia.

8. We have achieved whatever we have achieved according to the Sinatra Principle. We have all done it our own way.

9. This was because, despite bouts of insanity, infatuation and detours into the blind alley of ideological dogmatism, we placed the very highest emphasis in the final analysis on pragmatism -- on doing what works. Not on doing what is fashionable. Not on doing what the text-books say we must do. Not on sheepishly following the very clever and with-it advice of others who so obviously have all the answers. Not on holding through thick and thin to the holy scriptures and stipulations. But on simply finding what works and on doing what works with dogmatic determination.

10. If our success over the last generation has been achieved because of our devotion to

doing what works -- often contrary to the clever advice and admonition of those who so obviously know better and despite the threat of divine retribution -- I believe that our success in the future will continue to be dependent on our devotion to pragmatism, to doing what works for us -- for our own unique economies and for our own unique societies.

11. This is the one message that I wish to place before this important meeting. Before I develop on this single idea, let me make a few simple pleas. First, please do not assume that we in Asia are always stupid.

12. I must admit that many of us are indeed stupid, incredibly stupid sometimes. If I were to list all the stupid things I have done, it would take all day.

13. But please do give us a little credit. We can be stupid some of the time. We can be stupid a lot of the time. But please do not expect us to be stupid all the time. If you do not understand some of the apparently "stupid" things we have done, you might now and again do well to do a little more work and improve your ability to understand, rather than to assume that we are just stupid.

14. Second, please do not assume that we are all corrupt men and women with commitment only to ourselves and no devotion at all to the societies which we govern.

15. Indeed, the experts in cross-cultural comparative politics, economics and social psychology will tell you that the commitment of East Asian leaders to the well-being of their societies have been quite remarkable in comparative terms. Even the most corrupt and plundering leaders in miracle-making East Asia over the last fifty years have had a remarkable commitment to the good of their societies. They have enriched them and improved their well-being, whereas the Government disciplining honest and incorruptible free marketers have impoverished these societies and thrown millions out of work through their currency manipulations.

16. If you assume that we are corrupt and self-serving, you are likely to assume that the things that we do must be the result of our corruption and our evil natures. Yet no one can deny that what we did resulted in the Asian countries becoming economic tigers and dragons. Nor can anyone deny that our economic recession followed closely upon the "disciplining" of our Governments by currency traders.

17. Third, please do not expect us to run our societies for the purpose and the benefit of others, certainly not for the benefit of those who wish to make huge profit from our stock markets and the selling and buying of our money. It is ridiculous to expect that we should allow ourselves to be impoverished so others could enjoy unlimited gains.

18. Still we continue to be under pressure to do things that will benefit what the Western mass media calls "foreign investors". Many Western foreign investors who are not in the business of buying equity and assets in foreign countries but in building real production capacity in foreign countries resent the incredible emphasis on the role played by the short-term foreign equity investor.

19. My country is not against foreign equity investors. But we value the direct foreign investor who helps us build our productive capacities much much more than the foreign equity investor who in his search of quick investment returns fly hither and thither to so-called quality. But we do value the foreign equity investor who is in for the longer haul, who shows interest in the business he invests in and not just the Stock Market Index.

20. If this is offensive to some foreign equity investors, so be it. Please don't be angry with us and think up ways to teach us another lesson. Just thy to quality.
21. There is one last plea that I would like to make: please give us the right of self-determination.
22. By all means, bombard us with advice. Bombard us with facts. But please allow us to act as we think appropriate for our circumstances and for the achievement of our goals. Please allow us to decide on our national and societal priorities. And please allow us to devise the most legitimate and productive ways by which these goals can be achieved. Please do not define cronyism as anything done for our people and our country. Nor should liberalism be translated into neglecting the interest of our people and our country in favour of foreigners.
23. By all means, convince us by the power of your persuasion. But do not convince us by the persuasion of your power. Please do not intimidate. Please do not impose. Please, for God's sake, do not dictate.
24. Let me tie these remarks to the measures that Malaysia took to deal with the great currency crisis which swept through East Asia from July 2, 1997, which then developed into a great financial crisis, which then developed into a great economic crisis for Asia and also for the world.
25. We believed in mid-1997 that we were not like Mexico, not like Thailand. We had no massive foreign debts, neither the Government nor the private sector. We had no difficulty whatsoever in quickly pledging one billion US Dollar to help Thailand and one billion US Dollar to help Indonesia. We believed that our economic fundamentals were exceedingly strong. In fact, in the middle of June 1997, Mr Michel Camdessus himself had described in open forum and in detail the great fundamental strengths of the Malaysian economy.
26. When our currency plummeted and when our stock market plummeted, we quickly adopted, like the most obedient of sheep, all the prescribed measures. The Western Press called this formula "the IMF without the IMF" -- massive increases in interest rates, massive cuts in government expenditures, massive contraction in credit.
27. Then, like absolute idiots, we wondered why our currency was subjected to continued attack. And having cut off our lower legs, like absolute idiots, we wondered why our economy was dropping to its knees.
28. It took us some time to discover and to adopt the single most important strategic measure -- the adoption of selective currency controls -- which has made it possible to secure currency stability, to pump prime the economy without serious negative consequences, and to massively cut interest rates -- thus to save the real economy, and by doing so, helping to also save the financial sector.
29. When we adopted the selective currency controls, we were said to be utterly stupid. We were told that Malaysia was in the grips of an "IQ crisis". The measures were condemned as draconian. I was said to have done it purely to ensure that I stayed in power. It was assumed by an incredible number of very clever people that Malaysia had adopted currency controls in order to avoid undertaking painful structural reforms. Business Week called Malaysia a "Renegade Economy". It predicted that our foreign reserves would run down, the Ringgit would devalue, there would be trade restrictions.

The foreign experts said that a currency black market would sprout out everywhere, that a massive bureaucracy would arise, corruption would run rampant, traders would under-declare exports and over-declare imports. The stock market would go into meltdown.

30. All that we did was make the Ringgit no longer tradable beyond Malaysia's shores; the Malaysian currency was fixed at 3.8 to the US Dollar; and foreign equity investments could not be taken out for one year from September 1, 1998, a stipulation that was loosened and then further loosened after it had achieved its original purpose.

31. Foreign direct investment, repatriation of profits, imports and exports were all completely untouched. Yet the International Herald Tribune proclaimed that "Malaysia last week shut the door on the global economy". Equally reputable Western media proclaimed that Malaysia had turned its back on the market economy. The New York Times quoted a senior American administration source as saying that the measures would be a "spectacular failure".

32. Today, one year later, we receive the nicest of compliments. I would now like to place on record my gratitude to Mr Michel Camdessus who has had, on occasion, some kind words.

33. Mr Joseph Stiglitz, the chief economist of the World Bank, who I believe is speaking at this conference, recently said in Washington that the adverse effects "predicted or wished upon" Malaysia following its imposition of capital and currency controls had not occurred. "Foreign direct investment in Malaysia is not adversely affected at all by the control measures". Mr Stiglitz also noted that "there was no disturbance to the market" when capital controls were lifted on September 1, a few weeks ago. He also said that Malaysia's quick recovery was impressive.

34. I do not know if it is that impressive. I do know currency control is a hard act to successfully pull off. I do not advocate it for everyone. I do not advocate it for Malaysia under very different circumstance. But as you must know, no-one, anywhere, has come to the conclusion that the currency measures which we introduced on September 1, 1998 have been a spectacular failure.

35. Contrary to the predictions that Mr Stiglitz referred to, Malaysia's foreign reserves have risen, not fallen; in fact our reserves rose by 60 per cent over the last year, an average increase of one billion US Dollar a month.

36. Contrary to the dire predictions of our well-wishers, the "fear" has been not of a devaluation, but of a currency appreciation. Malaysia's currency is in the view of most, under-valued, which makes us fiercely competitive, which is the way we like it.

37. Contrary to the dire predictions, there have been no trade restrictions of any sort. Indeed, we have achieved one record trade surplus after another; our export performance has been second to none in East Asia, which has seen some of the most spectacular trade surpluses in post-war history in recent months.

38. Contrary to the dire predictions, except for some very erudite American academics from some very ivy-league American universities who have not yet visited Malaysia, no-one has been able to find a single currency black market dealing in Malaysian Ringgits.

39. Contrary to the dire predictions on a bloated bureaucracy, not one new civil servant has been recruited to administer the new currency regime. This may not be surprising

since it is administered without fuss or difficulty, essentially by officers working in the commercial banks.

40. Contrary to the dire predictions, the opportunities for corruption are incredibly hard to find since there has been no currency rationing of any sort, in a country flushed with foreign reserves and foreign currency.

41. Contrary to the dire predictions, the Malaysian stock market has not been shot to pieces. To be sure, the stock market has not sky-rocketed into the blue- yonder. This suits us fine. The Kuala Lumpur Composite Index stood at 303 at the end of August 1998, on the last trading day before anyone got a whiff of the selective currency controls. At the close last Friday, October 8, it stood at 743.84, a mere rise of only 145 per cent. As the IMF stressed in its recent not-very-sympathetic World Economic Outlook, unlike the stock markets of Thailand, South Korea and Indonesia, the Malaysian stock market has not been driven up by foreign portfolio investment. It has been driven up, in an economy flushed with funds, essentially by Malaysian investors. Others may not like this, but this is fine with Malaysians, who do not assume as the IMF does that a rising stock market driven by foreign money is inherently superior to a rising stock market driven by domestic funds. Whose funds is it after all that is driving up the stock market of the developed countries if not largely domestic funds?

42. Contrary to the assumptions also, the imposition of selective currency controls has not been a substitute for structural reforms. If you can believe the IMF, its recent World Economic Outlook says: " Malaysia has kept pace with the other crisis countries in structural reforms". The IMF says this even though it seems oblivious to the content of our National Economic Recovery Plan which details more than 200 reforms and policy measures which we devised and we are steadfastly carrying out.

43. Since no-one in their right mind can now say that our selective currency measures have been a spectacular failure, the new line of argument against Malaysia and these measures is that -- in the words of the IMF: Malaysia's "economic performance, at least to date, has been broadly similar to that of the other countries".

44. Since the IMF has lauded the performance of these other countries as a spectacular success, would it not be a little logical to also laud Malaysia's performance as a spectacular success, despite the fact that it is a spectacular success achieved not only without IMF assistance or support but in fact with belligerent condemnation and almost tangible obstruction by a great many organisations and people.

45. Perhaps an "economic performance, at least to date, broadly similar to that of the other countries" is the best that we can expect for being such a disobedient student. I have no great problem with that. I am obviously delighted by the successes of Thailand, South Korea, Indonesia and others.

46. However, someone somewhere might note that although the currencies of Malaysia, Thailand, South Korea, the Philippines and Indonesia are in rough alignment vis-a-vis the US Dollar as between September 1, 1998 and today, the journey of the Malaysian Ringgit has been a straight line, whereas the other currencies have gyrated, sometimes wildly, below and above their present equilibrium level. Others might prefer gyrations. Currency speculators certainly can't make money when there are no gyrations. But Malaysians and the foreign investors in Malaysia are somewhat enthusiastic about the rigid, unchanging,

boring straight line. 3.8 to the Dollar. 3.8 to the Dollar. 3.8 to the Dollar. Very boring indeed. But somewhat satisfying.

47. It is very true that all of us have managed very impressive V-shaped recoveries, at a speed no-one would have predicted even six months ago. The IMF has been more bullish about our growth rate this year than our own as yet un-revised conservative forecast. It even predicts 6.5 per cent growth for Malaysia next year.

48. So we have all done very dramatically well economically.

49. However may I point out that in Malaysia's case, we have had a similarly impressive recovery without having to go into massive foreign debt to the IMF or anyone else and without saddling future generations with massive debt-servicing burdens.

50. We have had a good recovery without having to sell our family silver and our precious heirlooms.

51. We have been able to achieve economically similar results as the other crisis-hit economies without having to auction off our precious corporations, which we had spent a generation to build, to foreigners at fire-sale prices. I do apologise to all bargain-hunters and fire-sale shoppers.

52. We have been able to achieve similar economic results without Malaysia having to bow or kowtow to anyone, which is not an important value to the people on the moon but which is considered important by Malaysians. I do not want to partake of IMF-bashing. I may be wrong. But I am quite confident that had we gone to the IMF for help, which we were pressured to do several times, Malaysia would have been forced to do things which would have destroyed not only the economy of Malaysia, not only the economy of the indigenous people of Malaysia; not only the political fabric of Malaysia but also the entire Malaysian nation and Malaysian society as we know it. This would have happened not because of malevolence or ill will but because of deficiencies in data, knowledge, empathy and understanding, breadth of vision, width of mandate and depth of insight of IMF experts. The IMF expertise on Malaysia, a difficult, complex but historically unproblematic economy with which it is hardly acquainted, is understandably limited.

53. We have been able to achieve similar economic results as the other crisis-hit economies, whilst maintaining full employment -- full employment -- and without the misery of massive unemployment, which would have damaged the political and social fabric of our society and this without having to forcibly expel the 1.5 million guest workers.

54. We have been able to achieve similar results without having to throw a single child out of school, much less the millions elsewhere who were in school before the crisis struck, who could no longer afford to go to school.

55. We have been able to achieve similar economic results without the decimation of the middle class, which it took us two generations to foster, which is the backbone of our democracy and the hope for our future.

56. We have achieved similar results as the other crisis-hit economies without the wholesale slaughter of the Malaysian entrepreneurs which we worked so hard to nurture and to mature over several decades. We believe that becoming new and inefficient venturers into business is more honourable than becoming highly paid servants of

powerful, huge foreign-owned conglomerates. Misguided national pride perhaps but we would rather be misguided than be properly guided as the servants of others.

57. We have achieved similar results as the other crisis-hit economies without blood on the streets and political turmoil throughout our land, Vice- Presidential encouragement notwithstanding.

58. These things may not be that important to many fund managers and yuppie equity investors to whom Malaysia appears merely as numbers on a screen. But they mean an awful lot to Malaysians and to Malaysia. We are not computer generated numbers. We are people, real, live people with all the joys and sorrows, the pride and the sense of shame which people have.

59. Let me end my remarks with two short remarks on global capitalism:-

i) on East Asian cooperation, and

ii) on the centrality of national reformation and renewal.

60. There are many who believe that one of the central questions of the new millennium is whether we should make the world safe for global capitalism or make global capitalism safe for the world.

61. I believe that the answer lies in doing both.

62. Global capitalism has a massive potential to produce wealth for all of mankind. It would be a tragedy for mankind if, because of a few rapacious capitalists, a new anti-capitalism era were to arise.

63. This would happen if rapacious capitalism destroyed jobs rather than create them. This would happen if rapacious capitalism concentrates ownership and wealth in the hands of the privileged few and generates great gaps in income. This would happen if rapacious capitalism creates widespread misery rather than the sea of prosperity which would raise all boats.

64. A clear example of rapacious capitalism has been the currency manipulators who took no more than a pound of flesh off the back of millions of East Asians in the last two years but who caused untold human misery.

65. Global capitalism cannot survive, still less thrive, if making money regardless of human cost is its creed.

66. I also believe that in the first decade of the 21st century, we will see the rise of a community of East Asian nations, embarked on a long journey of comradeship and cooperation. We will see East Asia take its proper place as a responsible region which contributes to the well-being, peace and prosperity of the world. We should not aim to be just "a caucus within APEC", nor should we aim to be the dominant continent in the world.

67. With apology to none, with goodwill to all, we in East Asia should embark on comprehensive, multi- dimensional cooperation whose objective is a common peace and a common prosperity, a gift to the peoples of East Asia and a gift to humankind as a whole.

68. Those of you in Europe, who have been able to deliver this priceless gift to your peoples and to mankind can surely understand our hopes and our dreams. We should

count on your support.

69. We in East Asia can begin by establishing an Eastasian Monetary Fund (EMF), a small, compact wholly regional funding organisation which would be deeply and constantly engaged in East Asian monetary cooperation and problems on a daily basis as opposed to a once-a-decade-when-crisis-strikes basis. Had such an EMF existed, I believe that the Eastasian currency crisis of 97/98 would not have occurred, would not have endured and would not have gone to such ridiculous depths.

70. Let me conclude on the most important strategic imperative in the years ahead.

71. We in East Asia have prospered in the past only because we have been able to respond to the enormous challenges that dogged our struggle for growth and development. We have, as I have said, re-invented ourselves over and over again, at incredible speed. We do not believe in, nor do we care for rigid standardisation. We believe everything in this world can be achieved through different ways and by different routes. The important thing is not how our goals are achieved but whether the goals we achieve are good. We will do it our own way and the world should not condemn and obstruct us merely because our way is different.

72. The next ten years will be a time to re-make ourselves yet again. I believe that again we will succeed, despite all our flaws and weaknesses -- and despite all the dire predictions to the contrary.

73. But we will again succeed only if we do not forget the lesson of pragmatism -- to remain dogmatically committed to non-dogmatism, to constantly search for what works and to doing what works with single-minded determination.