

**SPEECH BY TUN DR MAHATHIR BIN MOHAMAD
AT THE NATIONAL COMMITTEE ON GOVERNANCE:
2ND ANNUAL TOP EXECUTIVE FORUM ON GOVERNANCE
IN BALI, INDONESIA ON 28 NOVEMBER 2008**

“Governance Reform in Asia: Cultural Perspectives”

1. When I accepted this invitation to speak on “Governance Reform in Asia: Cultural Perspectives”, the financial problem in the United States i.e. the sub-prime loans by United States banks seemed to be an American problem which had nothing to do with the rest of the world, and certainly not with Asia.
2. The international community was still talking about Globalisation, a borderless world and a free market. Countries, especially developing countries were being urged to change their ideas about political, economic and social management and policies so as to cater to the global village where trade and capital flows should be free and unrestricted, where foreign involvement in local affairs should not be considered as being against the principle of non-interference in the internal affairs of independent nations.
3. Asians are culturally conservative and orthodox. They prefer to do things the way they had done in the past. But Asians also have an inferiority complex and believe that the Europeans are superior people with brilliant ideas and ways of doing things. The Asians subscribe to the Eurocentric world and would always try to emulate the Europeans.
4. Since the first contacts with Europeans some 600 years ago Asians had become accustomed to adopting European ideas about politics, economics and social systems almost without question. This has become a part of the Asian culture.
5. So when the Europeans came with ideas about globalisation, borderless world and free trade, the general tendency was to accept and to adapt to these ideas despite Asian countries having achieved independence. Reforms of governance must be made so as to accommodate the new vision of the world as a global village, to make possible the free flows of capital and the sanctity of the unregulated markets.
6. But even as these things were being initiated the world came to realize that the American financial crisis was not going to be confined to America alone but would engulf the whole world. All the systems of the west seem to be crumbling. Not only are they not delivering the expected benefits that they seem to have done to the world’s economy in the past but they seem about to destroy it.

7. Since globalisation and a borderless world would actually give better access of the American system and practices to all countries, including those in Asia, the question arises as to whether we should carry out reforms which would facilitate America's and the West's financial and economic crisis spreading to our countries.

8. I do not think Asians would want to be dragged down by an economic and financial crisis not of their own making. If we do not want this can we slow down the reforms including reforms in governance so as to minimise the fallout from the crisis in the rich Western countries. Can we in fact introduce reforms which can protect us more effectively than whatever practices that we have in place now?

9. In other words should we be carrying out reforms of governance to facilitate globalisation and free trade as we had planned or have been urged to carry out?

10. We need to rethink. If we are going to initiate reforms in whatever field we need to know what is happening to the world today in these fields. In particular we need to understand banking and finance better. The understanding may help us avoid changes and reforms which may have been the cause of the financial crisis.

11. There is evidently something wrong with the world's monetary system. The Bretton Woods agreement provided for gold to back currencies. But the rich countries decided to go off the gold standard. Only faith determines the value of currencies including the US Dollar which was designated the reserve currency.

12. Without gold the US Dollar has no backing at all. It is basically a useless piece of paper. Only the demand for the US Dollar to settle trade payments keeps the value of the US Dollar up.

13. It is doubtful if the United States knows how much US Dollar is in circulation in the world. Its very poor security feature also makes it easy to forge.

14. If the United States manages its finances well the faith in the US Dollar would be justified. But the United States owes the world an estimated 14 trillion dollars, an amount which it can never hope to pay. For years the United States suffers from twin deficits. And everyday the United States Government has to borrow 1 ½ billion dollars to finance its administration.

15. On the top of this the United States banks had not been prudent. Without caring about their assets and resources they have lent huge amounts of money to high risk borrowers, particularly for the purchase of houses. The earnings of the banks were based on the expected interest on these loans.

16. To securitize the loans they were bundled up and offered to insurance companies. It was thought that the risk would be taken care of by the insurance companies. The mortgage companies also acquired these loans.

17. What brought down the banks, insurance companies and the mortgage companies was the huge total amount of the loans. They run into hundreds of billions. When the risky non-performing loans became bigger than the good ones and the collaterals have no buyers the banks could not recover the loans. The insurance companies were also unable to pay the banks because of the huge sums involved. Neither could the mortgage companies.

18. The main reason why all these things happen to the United States is because the introduction of numerous high return financial instruments had diverted investments from the real business of producing goods and services to investments in these financial instruments, which include risky loans, secured debts, collateral debt obligations, swaps, derivatives etc etc. Most people don't even know what they are.

19. The free market also contributed much to the financial crisis. The theory is that markets can regulate themselves. When prices go down because of oversupply, production would be reduced and prices would recover. Governments should leave the markets alone.

20. But markets are about making money, maximising profits. The greedy soon found that shortages and oversupplies can be artificially created and manipulated. By creating an artificial shortage the prices would go up and the seller can make a high profit. When an oversupply situation is created by repeated selling, prices would fall. At that stage the goods could be bought and delivered to the buyers when prices were high, through yet another artificially created shortage.

21. That was what happened when currencies were traded.

22. Seeing what has happened to the United States and Europe should we carry out reforms of governance to enable all the systems and practices in those countries to be freely applied in our countries, in Asia. Although traditionally Asia would follow Europe, should we stick to this tradition, the Asian culture even though it may bring disaster to us.

23. I think we should think very carefully. Opening borders can result in the crisis of the United States and Europe assailing our countries. Yet we still need to deal with these powerful economies.

24. I am not competent to suggest the reforms needed in the circumstances. Asian countries have a need to make adjustments to the realities of the globalised world. We cannot isolate ourselves. In fact our growth had depended

on the wealth of the Americans and the Europeans providing us with good markets.

25. If we allow them to go under or we do something that would destroy the economies of these countries we would lose the lucrative market. And we would also lose a source of capital.

26. We cannot simply shut our countries to these collapsing countries in order to protect ourselves. But we can be selective in how we accommodate them based upon the role we play in relation to them and on the basis of our economy.

27. The countries of Asia which have been most affected are those which succumbed to the easy money offered by the many financial instruments created by the brilliant minds in the financial industry in America.

28. On the other hand those which are too poor to invest in these high return instruments via the hedge funds or directly are not much affected.

29. The reforms of governance needed must therefore be selective in character. Whatever may be the reforms, there can be no doubt that Governments must come back to regulate and to supervise. It will make the free market less free perhaps, but that is a small sacrifice to make in order to minimise the effect of this unprecedented economic meltdown.

30. Bailouts must be regulated so that they adhere to legitimate banking practice. Insurance companies and other funds, including pension funds, must be subjected to Government initiated rules and supervision so as to reduce exposure to high risk investments.

31. Inflow of foreign funds must also be overseen. One of the problems faced by unregulated investment in stock market is the massive and sudden dumping of shares when things look bad or are expected to become bad. The sudden outflow of funds will have a deleterious effect on a country's economy.

32. Foreign holdings in any local company should be limited. This is especially so for banks and insurance companies.

33. Governments must be prepared to regulate free trade. Where necessary import duties and excise duties should be used to protect local industries.

34. Exchange rates need to be realistic. Free floats needs to be looked at with caution. Where possible fixed exchange rates may be adopted and currency trading be made illegal.

35. Whatever the policy adopted to cope with this worldwide economic crisis, reforms of governance must still be made to provide for efficient Government i.e.

efficient bureaucracy. Efficient bureaucracy must mean minimal bureaucratic procedures.

36. Corruption is the bane of all countries. It cannot be totally eliminated. But it can be reduced if bureaucratic procedures are minimal and take the shortest time possible. Any delay must suggest corruption and investigations must be carried out.

37. Government requirements in order to gain approval of anything must be very clear and must be made known to the public. Where compliance is full there should be no delay in approvals.

38. Being business-friendly is necessary in order to maximise private sector contribution towards economic development. It is the duty of Governments to find out what complaints the private sector has and to remedy them.

39. Some of what has been mentioned regarding reforms of governance are not really reforms. And some of the others would be too late to prevent the effects of the financial crisis of America and Europe from hitting Asian countries. But they are necessary nevertheless. They may be able to reduce the impact and perhaps enable earlier recovery.

40. The countries of Asia will have very different problems depending on the stages of their development, their resources and how much they are hitched to the global financial systems. Those which have depended on foreign credit or have been involved in investments in foreign funds would suffer most.

41. On the other hand those with large reserves in foreign currencies or have big savings may be able to reduce somewhat the impact of the crisis.

42. Whatever may be the impact of the financial crisis the judicious measures in the governance of the economy will still prove helpful. The important thing is to ignore old habits of imitating everything the rich western countries does. Asian countries must in fact initiate changes, including those to the monetary and financial systems.

43. Asians have always believed in the role of Government in regulating institutions. The world is about to view Asian practices and systems more positively. Asian countries must therefore make their voices heard. And this includes the small developing economies as well. It would be fatal for them if they allow, as in the past the rich and the powerful to devise the systems by which they must all function. In particular the banking system and practices need to be looked at from the Asian developing economies point of view and interest.

44. Governance is defined as the act, process or power of governing, As the situation surrounding government changes, there must also be changes to governance to cope with the new situation or surrounding.

45. What needs to be done may constitute reforms of governance.

46. But reforms are often constrained by the culture of the people involved. There is no doubt that Asians subscribe to different values even among themselves but more so between them and the Europeans.

47. In a Eurocentric world Asians tend to accept everything that came from the West i.e. from the Europeans as right and proper. It is difficult for Asians to reject what originates from the Europeans.

48. But that culture, that blind acceptance of the systems and ways of the Europeans must be modified, if not discarded.

49. What we are seeing today is the collapse of a very fundamental European institution, that of money and banking.

50. It is not enough to just tweak our present system of governance. It seems that we must be prepared for radical change. And Asian ideas must find a place in the development of these changes.

51. As the saying goes we have to go back to the drawing board. We have to question the system we have used for centuries. We have to consider redefining them, introduce new rules and regulations and provide for greater governance.

52. We may have to throw out the system altogether and devise a new one.

53. All these are not in our culture. But our culture must not stand in the way of necessary reforms, if it means saving our economies and our states.
