

**SPEECH BY TUN DR MAHATHIR BIN MOHAMAD IN ABU DHABY, UNITED  
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**“Global Financial Crisis: Lessons Learnt and the Way Forward”**

1. Firstly I would like to thank the conveners of this forum for the invitation to speak on a very interesting subject namely, “The Global Financial Crisis - Lessons Learnt and The Way Forward”.
2. The world is at the moment going through the worst financial crisis ever. Actually it should not. It should not if Governments and the financial community in particular had seriously studied the several financial crisis which had happened before. They should have learnt the lessons and taken necessary actions.
3. We know of the Great Depression of the 1930’s. We learnt some lessons but not enough to prevent subsequent crisis. As late as the 1990’s we went through another crisis. Despite warnings given that the monetary and financial system was open to abuses, the systems were not changed or modified. The great faith was that the financial market could take care of itself. The market would regulate the market. Governments should not interfere. There should be less Government.
4. Because of its close relations with the current world financial crisis, I would like to talk at length of the East Asian crisis first. It was claimed that what happened to the countries of East Asia was due to their growing too fast. They were said to be incapable of managing their finances. In devaluing their currencies, what the market was doing was to correct the wayward ways of their Governments and their businessmen.
5. When it was suggested that the currency devaluation was due to manipulation by the currency traders, the snorts could be heard throughout the hall. How dare they. The Prime Minister of Malaysia was said to be a menace to his country.
6. But the criticism against currency trading continued. There may be some countries which had been borrowing too much foreign currencies. This was said to be straining the value of their own currencies. They were warned that should their currency depreciate they would not be able to pay their debts. And the press hinted that their currency was about to depreciate.
7. Sure enough the Thai Baht devalued apparently because the currency felt the strain and could not stand it. The currency then devalued, as if the currencies had sensors which felt the strain. The financial experts were elated as

their prediction had proven to be right. They said the Baht would devalue and it did.

8. Governments shuddered in fear of the financial experts. They had tried to stem the tide by using their dollar reserves to buy their own Baht to sustain its value. But all their efforts failed. The devaluation of the Baht continued and the central bank ended with loads of devalued Bahts. Their Dollar reserves had depleted. Even the billion Dollar loans given by neighbouring Malaysia was swallowed up.

9. Malaysia's currency and finances were strong. So was its economy. Reserves and savings were high. Foreign loans were minimal and were not due. The Malaysian Government felt safe, safe enough to lend one billion US Dollars each to Thailand and Indonesia.

10. Then the press began to talk about contagion. It seems that currency devaluation was contagious just like infectious diseases. Even if the economy is good and the finances are healthy, like healthy humans, there could still be infection. Malaysia is near Thailand. If Thailand suffers from financial crisis than its neighbour Malaysia must get the infection and its currency would also be devalued.

11. Again shortly after the Thai Baht was devalued the Malaysian Ringgit began to show signs of weakening. Not much at first but gathering speed fairly quickly. The Malaysian Central Bank, Bank Negara went into the market to buy the devaluing Ringgit. Very quickly the Central Bank stopped trying to defend the Ringgit.

12. Malaysia concluded that it must surely be the currency traders who were selling millions of Ringgit. How they got hold of the money is a mystery. So much Ringgit did they sell that its value was halved. Malaysians suddenly found themselves poor. Banks and companies were going bankrupt. The economy was in a tailspin. Malaysia was fast becoming a failed country.

13. The IMF and the World Bank gave unsolicited advice. Increase the interest rate, have a surplus budget, shorten the period for non-performing loans to three months, let the companies go bankrupt and finally borrow money from the World Bank to pay external debts immediately.

14. That all these measures would compound the problems seemed to be ignored by the two international institutions. According to the IMF the failure of the country's finances would be resolved by the IMF taking over the running of the country's economy – i.e. Malaysia would effectively be colonized again.

15. Malaysia refused. Instead it did everything that the IMF advised not to do. The banks and companies were bailed out, interest rates were lowered, the

period for non-performing loans was lengthened, no attempt was made to achieve a surplus budget etc.

16. Finally Malaysia applied currency control, refused access to the Ringgit by the currency traders and fixed the exchange rate. We did a lot of other things to ensure that the control worked. The predicted black market in the US Dollar did not make its appearance. There were enough foreign currency to pay for imports and earnings in foreign currency was brought back. Reserves increased. The economy and the finances of the country stabilised and Malaysia recovered earlier than those countries which were in receipt of IMF and World Bank advice and help.

17. It is obvious that the international financial community did not want to believe that the devaluation and the financial crisis in Asia was due to manipulation by the currency traders. They therefore took no action to stop or regulate the financial market. They appeared sure that only newly developed countries would experience financial crisis. The powerful economies know how to manage their finances and their currencies would never be devalued.

18. But they know now that they are not immune. The powerful economies have now to face the greatest financial crisis in their history. And it happened in the same way as Asia's crisis. It began, or rather it came to light with the discovery of the huge size of the sub-prime loans for housing in the United States. Unregulated by the Government the banks had been lending money which they did not have to house buyers who could not pay. To ensure that the loans remain good they bundled them and insured with the big insurance companies and the secondary mortgage companies. When huge numbers of the house buyers could not pay, despite the insurances and secondary mortgage, the banks collapsed completely.

19. But the banks were also financing hedge funds and their derivatives. They lent 20-30 times the funds invested with the hedge funds. But when their investments failed the losses were also 20-30 times as big. The hedge funds would not pay their loans nor could the investor respond to margin calls. The hedge funds and the banks collapsed.

20. Government moved in and despite having condemned East Asian countries for bailing out failed banks and companies, they now bailed out the banks and business with trillions of dollars. Effectively the Governments have nationalised these financial institutions. The great capitalist have resorted to socialist ways to help the recovery of their finances, their economy. Till today the great economies of the West have not recovered. Every now and again the press would report the crisis having bottomed out. But very quickly new problems arose. Not only are the companies and banks going bankrupt, whole countries have also gone bankrupt and have to be bailed out.

21. Have the Governments of the countries which are experiencing this crisis learnt anything? The evidence seems to indicate that they are in denial. They still refuse to believe that this is a systemic failure, that their banking, monetary and financial systems are open to abuses. And the abuses are by the highly respected members of the financial community. These people knew they were doing something wrong but they were making huge profits. So they hid the failure until the losses became too big to hide.

22. There is also a reluctance to admit that the free market should not be too free, that the markets are incapable of regulating themselves, that Governments should resume their roles of overseeing and regulating the market.

23. Leveraging had contributed much towards the bursting of the bubble. True, leveraging can give huge returns to the investors, the hedge funds as well as currency traders but when losses are incurred the magnitude of the losses would also be very big, as big as the extent of leverage.

24. The lack of transparency is another factor which lead to the abuses remaining hidden until it is too late. Whereas the market players themselves expected all businesses to be transparent so they can know their profitability or otherwise, but they themselves seem to reject transparency with regard to their own hedge funds and currency trading. The tax havens have been used to prevent Governments from looking into their activities and to avoid taxation.

25. While it may be necessary for the banks to lend more than the assets they have, their exceeding prudent limits has led to such excessive lendings that high risk loans greatly exceeded the prudent loans. When the sub-prime loans failed to perform, the returns from the sound loans could not cover the losses.

26. The idea that certain banks are too big to be allowed to fail has also led to abuses and imprudent lending. They had a shock when in the case of Lehman Brothers the Government was forced to let it go bankrupt. Whether this was wise or not is a different matter. But certainly spending huge sums of public money to bail out banks is unfair to the people.

27. There are many other practices in the financial markets and many products which have also contributed to the bursting of the financial bubble. Their roles need to be studied carefully.

28. The financial crisis is something that must not be allowed to happen again. For this all the lessons of the present crisis must be thoroughly studied. Many established ideas and practices need to be reviewed and if necessary modified. In fact we need to hold a new Bretton Woods type of conference in which all categories of countries should be represented. The practice of the rich and the powerful of arbitrarily selecting countries most likely to agree with them to attend such conferences should be stopped.

29. The whole international monetary, financial and banking systems need to be scrutinised and most certainly they need to be changed.

30. The first thing that needs to be changed is this idea that Governments should abdicate the role of instituting laws, of overseeing and regulating the whole financial market. It must be admitted that the idea of the market regulating the market has failed and must be rejected.

31. The banks in particular must not be given unrestricted rights to create money and to lend them. Though banks no longer issue banknotes, but their cheques, credit cards, travellers cheques etc effectively represent money. The amount involved through these substitutes for fiat money seems to be unlimited. The interest charges on loans incurred by credit cards must also to be limited.

32. The financial market must seek Government approval before introducing new get rich quick schemes and products. It must be admitted that the financial market creates wealth only for the rich investors. The spin-offs in terms of employment and supporting businesses is minimal. The financial market is basically about gambling and speculation. Now the big players have found ways to manipulate the market so that they almost always achieve high profits. Limiting the financial market may adversely affect the GDP and per capita figures for the nations. But for the ordinary men-in-the-street the apparent growth and prosperity as represented by these figures are quite meaningless. It should always be borne in mind that one millionaire would increase the per capita income of 1000 unemployed citizen by 1000 dollars each. Now we have not only millionaires but billionaires. Each one of them would distort the per capita of a country, creating the impression of prosperity where in fact there is poverty.

33. We have to accept that restrictions of financial market will slow down economic growth as represented by GDP and per capita income. But the lower growth would represent real wealth of a country. We need also to devise other ways of indicating the level of economic wealth of a country. If we do this then perhaps the real prosperity of a country will be more accurately measured.

34. The Global Financial Crisis should wake up the world to the need to be more cautious and prudent in the management of the wealth of nations. Certainly speculation and gambling should be reduced to the minimum. The rich countries must realise that their wealth, wrongly managed and abused can also affect them adversely. It is time that everyone rethinks the systems and the practices so that there would be less abuses and poor countries can be protected from the destructive activities of the rogue financial manipulators.

35. If we are prepared to do this then we are likely to see a more equitable world, less prone to basically man-made crisis.

36. The way forward is to admit that the present monetary, financial and banking systems are faulty and open to abuses and manipulations and must therefore be reviewed and modified or changed so as to prevent abuses. The way forward is to restore the role of the Governments in overseeing and regulating the markets.

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