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*"EMERGING FROM THE ECONOMIC CRISIS: THE MALAYSIAN EXPERIENCE"*

1. I am honoured to be here this morning to address the Asia Society of New York, which has done tremendous work in building bridges between Asia and the United States. Your effort at promoting closer relations and understanding between the two continents has done wonders in strengthening Asian-US tie. I hope you will continue with your great effort in this direction because, more now than ever before, Asia and the United States need to consolidate our efforts in meeting the many challenges before us.

2. When the financial crisis first hit Asia in July two years ago, there was initially a lack of interest and attention on the part of the United States. Some even perceived the fall of the financial markets in Asia as being helpful for the US economy. There was the belief then that the crisis would slow down growth in what would otherwise be an over heated domestic economy, putting deflationary pressures that could eventually eliminate all risk of inflation without having to increase interest rates.

3. It was understandable that a crisis so far across the Atlantic and pacific waters would not ruffle the American economy especially when the United States was in a state of economic bliss. The US economy was in its eight consecutive year of economic expansion. It was recording an annual growth of nearly 4 percent with an inflation rate of 1.2 percent. Business was booming and Americans were content, as reflected by the pace of mergers and acquisitions of big banks and corporations and the support they gave their Government. The dynamism of the US economy has placed the United States as the dominant player in the international financial system. How could anything go wrong? The Asian crisis has in fact re-established the United States as the economic superpower in the region.

4. But over the months, despite assistance from the international financial institutions, the situation in Thailand, Korea and Indonesia did not improve. And what was most feared, happened – Japan was faced with a recession, the effect of which had only worsen the economy of the countries most hit, but also strong economies of Singapore, Hong Kong and Taiwan.

5. Fortunately, as the crisis mounted, many Americans began to realise that the economic repercussions in Asia could have adverse effects on United States exports and American jobs.

6. I think it is not inappropriate that we call upon the United States to take the lead in providing strong economic leadership in this time of economic hardship. Today, the United States enjoys far better investment opportunities than any country in the world and thus can import capital on a large scale. The United States with its capital, management skills and technology can help boost productivity in the still weak and fragile Asian economies, keep markets open and assist international financial institutions, which need replenishment. The United States is not only in a position to be the global lender, but also the global spender of last resort. More than ever before, US leadership is critical now and it is only the robust and sustainable US economy that can prevent world depression.

7. Of course, we do not expect United States to do it alone. Japan's role is vital and Asia is looking to Japan for leadership. Japan has the capacity to grow and to be the locomotive of growth in the region. Like the United States, it has the capital, technology and skills to rebuild its own economy and to provide the lead that the rest of the region needs. Japan should invest in the East Asian countries as it did before, open up its markets and buy their products. What Malaysia and the rest of the region need are revivals of Japanese investments than can create jobs and stimulate economic growth which will not only benefit these countries but also create good markets for Japan. Japan has the means to resuscitate the Asian economy. The United States can help by encouraging and persuading Japan to play that vital role.

8. Regionally, member countries of ASEAN have agreed to confront the economic difficulties by expediting intro-ASEAN economic co-operation. This involves the liberalisation of Trade in services and is aimed at increasing market access in vital areas such as tourism, telecommunication, air and marine transport.

9. It is regrettable that the more developed and so-called better informed western world could not discriminate between Malaysia's own growth economics as compared to that of its neighbors. Malaysia's difficulties were unfortunately lumped together with the difficulties being faced by the neighboring nations. It was conveniently forgotten that Malaysia had a different political structure and experience, and had different history of economic management.

10. True enough, there was over-investment in infrastructure and investment in the stock market, and some projects were large ones. But one should also remember that these projects were formulated during times of economic booms, and if not for the acts of self-serving money traders and hedge fund operators, the economy would not have succumbed. Great play was made of the contagion effect, and people could not recall how different Malaysia was. The world forgot that politically for example, Malaysia never saw a change in the government ever since achieving Independence in 1957.

11. Locally, Malaysia has undertaken a number of measures that will restore confidence in the financial market, improve the balance of payments position and enhance external trade. The Government set up the National Economic Action Council (NEAC) to undertake the implementation of the National Economic Recovery Plan (NERP). This package of measures has included cutting back Federal

Government expenditure by 18 percent in 1998; postponing in the implementation of a number of public projects; promoting the use of domestic products; simplifying conditions for investment; increasing the foreign equity participating in the manufacturing and service sectors; and approving immediately the import of heavy machinery and components that are not produced locally.

12. Through the NERP, Malaysia has also taken steps to strengthen the financial system by tightening the classification of non-performing loans; ensuring that financial institutions adhere to their credit plans; and encouraging mergers, acquisitions and injection of additional capital among less strong financial institutions. Two institutions were set up, namely Danamodal, to re-capitalise banks and other financial institutions, and Danaharta, to address the problems of non-performing loans. To-date, Danamodal has re-capitalised ten financial institutions with capital injections worth US\$1.6 billion, while Danaharta has acquired and managed approximately US\$8.4 billion worth of non-performing loans.

13. These comprehensive measures were carefully designed and a lot of consensus-building went into their formulation. According to the World Bank, we were the only country hit by the crisis that came up with such a comprehensive plan. Some say that because of these comprehensive efforts, Malaysia, which was among the last to enter the crisis, appears to be the first to come out of it.

14. Today, we are seeing signs of recovery in Malaysia. Consumption, sales, production and exports have registered positive trends since the beginning of this year. We have noticed that the sales of cars and vehicles and energy consumption have increased significantly. The economic recovery has contributed to the reduction in employee retrenchment numbers throughout the country. Inflation as measured by the consumer price index has also been brought under control from 5 to 6 percent during mid-1998 to below three percent in the first quarter of this year.

15. Close to a full year after we instituted the policies relating to capital control, we find that we were fairly correct in doing what we did. Our decision to peg the US dollars to Ringgit Malaysia 3.80, which is really below the Ringgit's real value, reflected pragmatism and as such we did not see a black-market developing. We are reviewing our policies as we proceed through time, and adjusting our policies based on feedbacks we receive.

16. However, after having highlighted such positive results, I must also say that we need more time to bring the country back to where we were prior to 1998. Too much was lost in the interim and there are old issues which we thought we had solved, but which now we must try solve with greater vigor. For example, social issues relating to equity and distribution (in which we had made great strides), need to be re-looked in a different fashion. We are just now setting up the Second National Economic Consultative to chart overall development policies for the country.

17. The KLCI stock market has rebounded from a very low position of 262 points in September 1998 to some 830 points today. Foreign portfolio investors have returned and are actively buying our stocks. In total about US\$736 million of net cumulative portfolio fund involving over 6,000 new external accounts has been recorded since mid-February this year. According to the Bloomberg Index, the KLCI registered the highest growth of all Asian markets (at 197.77 points) for the period of September 1 1998 to May 20, 1999; followed by the Korean Composite (at 158.67); and Thailand (at 150.10).

18. In addition, the country's reserves now stands at US\$31.2 billion and we are now capable of financing our retained exports for 6.9 months. These reserves include the US\$1.0 billion in bond proceeds that Malaysia secured recently. We therefore do not anticipate a massive exodus of capital this September as investments by these investors have been preserved and even improved since the selective capital and currency control measures were introduced last September. Even if an exodus should occur, Malaysia is in a position to absorb and adjustment, given that the country's foreign exchange reserves are at pre-crisis levels.

19. The measures taken by Malaysia are a reflection of our will and determination to take the necessary steps no matter how painful, to resolve the present economic problems so that we can again embark on the path of strong and sustainable growth. These are also indications of our pragmatism and of our ability to look at ourselves honestly and to remedy whatever weaknesses we may have. We are pleased to note that these measures have been favourable commented on by both IMF and the World Bank as well as by other foreign observers.

20. But make no mistake, Malaysia is not resting on its laurels. We are mindful that the regional economy is still vulnerable. Uncertainties lie ahead and even the most brilliant of economists has been proven wrong. The world economic growth in the last few years has been sustained by an extraordinary performance in the United States. They say a bubble is not a bubble until it is burst. We hope that what we see now in the United States is growth that is sustainable – because a lot of what happens here will affect the whole world.

21. Malaysia is also aware that no matter how hard we try, we cannot resolve the present difficulties or maintain our recovery path on our own. We need your support and understanding to help us in our recovery efforts and in this aspects, the US private sector as key players in the market can help generate and increase the confidence level in Asian economies. If you can increase the level of confidence, it will be a great boost for the region.

22. While we are on the subject of confidence, it may be appropriate perhaps to mention at this juncture the misconceptions of some foreign observers arising from Malaysia's response during the early stages of the unfolding crisis. Some of the measure taken by us to contain the crisis, such as our selective short-term capital controls and the currency controls imposed in September last year have apparently created doubts in the minds of some foreign investors as to our commitment to an open market economy and our attitude towards foreign participation in our economy.

Some economic experts have even gone up to the Hill to testify that Malaysia's capital controls were neither necessary nor sufficient and were a drag on Malaysia's economic recovery.

23. The direct and immediate impetus for the failed economy was not the collapse of the real sector, but rather, the failure was predicated upon the collapse of the financial sector. We are suddenly informed that whatever we learnt in school on economics management had no meaning. The strong fundamentals I highlighted in the early part of my speech tonight are eloquent testimony of what we have achieved and portends great events for the future, for us. Unfortunately, they are made to be of no consequence. Our gains were nullified by the acts of a selfish few. We lost, greatly. We made great strides over the 10 years prior to 1998, and because of the activities of the hedge fund traders, among others, we were forced to crawl. It will take sometime yet for us to really get on our feet, what more to walk and run. We saw destruction in seconds, which earlier took ages to develop.

24. In this regard, I would like to state that the unorthodox measures undertaken by Malaysia have worked well for us. Malaysia introduced the selective capital and currency controls to reduce our risk and vulnerability to external developments. A source of concern that has been apparent since April 1998 was the increase in the internationalisation of the ringgit. There was an alarming increase in the outflow of the ringgit that was attracting a higher interest rate in the region of 30 to 40 percent offered by offshore centres. We saw ringgit being offered in Singapore, for example, at higher and higher deposit rates. And we asked ourselves, who was prepared to pay such a high cost of borrowing, while the onshore rate was only around 11 percent, if not the currency speculators. In view of the openness of the Malaysian economy with our exports and imports measured to almost 200 percent of our GNP, Malaysia could not afford to have its currency so vulnerable to such developments. Subsequently, it was found necessary to fix the ringgit at RM3.80 to the US dollar in order to provide a greater degree of certainty in the market. It was against this background that we introduced the selective capital control measures.

25. Specifically, only the following items are controlled:

Ringgit-dominated transactions among non-residents via non-resident external account;

- Outflows of short-term capital by requiring such inflows to remain in the country for a minimum period of one year;
- Import and export of ringgit by travelers, both residents and non-residents; and
- Malaysian investments abroad, which require approval, as there are insufficient funds to be taken out, although capital may be raised abroad, collateralised by foreign assets.

There are no controls on:

- Current account transactions
- Repatriation of interest, dividends, fees, commissions and the rental income from portfolio investment and other forms of ringgit assets; and

- FDI inflows and outflows, including income and capital gains.

26. As we emerge from the financial difficulties, we as a nation learn that we are not necessarily our worst enemy. We learn that we need not recapitulate and adopt solutions neither suited nor appropriate to problems facing us. We learn that we need not necessarily take the bitter pills to effect a cure. Addressing the symptoms, we find, are not real solution. The cure lies elsewhere. But then again, unfortunately for us, we are considered to be irrelevant, and ideas we put forth on restructuring the world financial system are yet to see proper birth.

27. As we move through the recent crisis, a major lesson for us is that we need to go back to fundamentals and review basic assumptions and institutions. Ideas that have been institutionalised and accepted through time many no longer be correct given new factors such as liberalisation and the evolution towards a borderless world. The ability of individuals and corporations to move investments in and out of countries with ease nullifies the efficacy of national investment, fiscal and monetary policies. There must be new structures that defines such relationships and Malaysia believes strongly that such a restructuring and the forging of new relationships is long overdue.

28. These measures were designed and implemented to achieve specific objectives. They are selective and are aimed specifically at eliminating access of speculators of the ringgit. And on February 4th 1999, the rule of one-year holding of the portfolio capital was modified to allow foreign investors to repatriate the principal capital and profits, subject to a graduated levy depending on when the funds were brought into Malaysia and the duration of the investment. This amendment has encouraged investors to take a longer-term view of their investments in Malaysia and many have decided to stay inside the country even though the exit tax allows them to leave before the 12-month period expires.

29. I wish to underscore that Malaysia remains deeply committed to the open market and free enterprise system and that we continue to welcome foreign participation in our economic growth. Indeed, not only are the earlier regulations providing for various incentives and benefits to the foreign investors firmly in place, new legislation has affected to further improve the investment climate for multimedia and information technology products and services. We are mindful of the significant contribution of foreign capital and technology to our industrialisation process, which has enabled us to progress from the humble beginning of labour intensive semiconductor assembly in the 1970s to sophisticated value-added manufacturing of the next century. I would like to add that the United States as the biggest direct foreign investor in Malaysia has contributed significantly to our industrialisation process. The Prime Minister himself has on numerous occasions, publicly expressed Malaysia's appreciation to US corporations in Malaysia for transferring technology to Malaysians.

30. The way we conduct our business as well as our daily lives need to be constantly adjusted and improvised as a result of technological innovations. Certain practices that are logical and acceptable in the past may no longer be relevant in the present.

So it is with portfolio investment. It is indeed encouraging to note that there appears to be a growing consensus globally on the need to take a closer look at the whole current international monetary system including the issue of short-term capital movements and currency trading. Malaysia hopes that the international community will have the wisdom and ingenuity to come up with an internationally accepted framework to ensure that all countries can be protected from the ravages of currency volatility while at the same time providing for a more orderly international regime for currency trading.

31. Malaysia has always faced past challenges with an open mind and with a great deal of pragmatism. We are also deeply mindful of the need to learn from others and to work in close co-operation with all. Today, as Malaysia moves into the Information Age with the launching of the Multimedia Super Corridor as the centre-piece of our strategy to attain the national goal of becoming a truly industrialised society by the year 2020, the need for us to learn and co-operate with others has become all the more urgent and relevant. It is in this context that we call upon the US private sector to participate fully in our economic development.

32. On the international front Malaysia feels that there is a strong need to improve the architecture of the global financial system that will provide for transparency and regulations of short-term capital flows. In this regard, we would like to emphasise that any suggestion on reform of the financial system from the G7 must have the support of the international community. Developing countries must be fully engaged in this process from the very beginning.

33. We are happy to note that more than 30 out of the 187 companies that received Malaysia's Multimedia Super Corridor status are American companies. They include Oracle, Intel, Motorola Multimedia, Greene Engineers, ATI Technologies, Lotus Development Services, Lucent Technologies, World Care Health, to name a few. These companies along with other companies from Canada, Germany, Japan, Sweden and many others, fulfil the criteria of being providers and users of multimedia products and services; employing a substantial number of knowledge workers willing to contribute to the development of the Multimedia Super Corridor. To ensure the successful development of the Multimedia Super Corridor, the Prime Minister has, among other things set up an International Advisory Panel to advise him on its development. It is significant to note that 18 of the 29 panelists are US corporate figures. This is indicative of the continuing important role of the United States in Malaysia's future growth and in our move towards the information age.

34. I would now like to touch on the subject of regional security in the Asia Pacific region. There are those who suggest that the prevailing financial crisis is undermining the regional security of the Asian region. The potential instability that has been cited includes political and social disorder, ethnic conflicts and tension over migrant workers, organised crime and the widespread of human rights abuse. There are also those who argue that the reduction of the US presence in East Asia could further undermine the security and stability of the region. Let me assure you that Malaysia shares similar views with the United States that security and stability of the Asia Pacific region are important because these factors could affect the free movement of resources, people and services.

35. It is true that the crisis that had befallen us in Asia has led to some political instability, change of leadership (but not governments) and social unrest in some countries. But the causes of these are economic in nature, not political. The situation before us today is different from that of the Cold War years. Today, we are constantly engaged with each other in dialogues that provide us the benefit of comprehensive and frank discussions of all things uncertain. The ASEAN Regional Forum (ARF), which was launched in 1994, has built credibility in its effort on issues such as confidence-building measures, preventive diplomacy and resolving regional conflicts through dialogue. These discussions, which are constantly taking place bilaterally and multilaterally reduce conflict, which in turn provides Asia and the great powers the opportunity to enhance their economic relationships.

36. America remains "Number One" as it is by far the only comprehensive superpower in the world, with a cumulative power and influence in the economic, military and cultural fields that is unrivalled by any. America's power and influence in global, political, economic and financial institutions is also well appreciated, especially when assistance from these institutions is critical to the well being of troubled economies. But much more can be done.

37. What all these means is that there is still a lot of room for American investment and trade in this region. And we will continue to canvass America's economic presence in our region. We commend the role played by the US business councils and other Asia Pacific business forums that have taken great effort to encourage American investment in the region. Once again, for the prosperity of America and Asia, we welcome you to participate in our economic development.

38. The recent crisis has taught us many valuable lessons, and the next millennium calls for greater resilience and pragmatism in the evolution and implementation of public policies. We think we have the right frame of mind and the correct stance to face the new challenges.

39. On that note, I would like to once again thank the ASIA SOCIETY for this invitation. I hope that we will have further occasions to meet and discuss issues of common concern to us all.