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Excellencies, Ladies and Gentlemen,

At the outset, I would like to express my appreciation to the Government of Mexico for the kind hospitality and excellent arrangements made for this meeting. I like to welcome Iran and Colombia for attending this meeting for the first time. May I take this opportunity to share Malaysia's experience in dealing with the financial crisis that struck East Asia in 1997 and the reform of the international financial architecture.

As you are aware, the financial crisis hit Malaysia due to contagion effect. The crisis was triggered by the speculative attack on the Thai Baht and quickly spread to attack on other regional currencies. The crisis worsened when financial markets overreacted, treating economies in the region as having the same fundamentals and risks.

Malaysia's initial conditions and fundamentals prior to the crisis were relatively strong. Real GDP growth moderated to 7.3% in 1997 from 10.0% in previous year. Malaysia has enjoyed a strong fiscal position with budget surpluses since 1993 and low debt level. With careful management of the external exposure, Malaysia has very low short-term corporate borrowing and broadly balanced overall foreign currency position in the banking sector. Unemployment was low at 2.5% in 1996 and foreign reserves were sufficient to finance about four months of retained imports and were about three times higher than the short-term liabilities.

At the beginning of the crisis, Malaysia followed the conventional IMF prescription with tight monetary and fiscal policies. Interest rates were increased to prevent further outflows of the Ringgit. The government adopted a tight fiscal stance, including drastic cutbacks of 18% across the board in public expenditure to contain domestic demand and to improve the external current account balance position.

However, IMF prescription's failed to restore stability to foreign exchange and equity markets but it actually aggravated the crisis. High interest rates aggravated the problem as costs of borrowing increased sharply for the real sectors of the economy. The cutback in government expenditure worsened the problems of an economy already in a deflationary spiral. In March 1998, Malaysia took steps to move away from IMF's prescription. A series of measures were introduced to strengthen and develop the financial system and enhance transparency in the public and private sector. Selective exchange controls were introduced in September 1998 to deny speculators in the offshore market access to our currency (Ringgit) as well as to stabilize short-term capital flows.

The currency was pegged at RM3.80 to the US dollar. There were structural economic reforms of banks and corporations. The government established an asset management company to purchase non-performing loans from banking institutions and special purpose vehicle to facilitate the recapitalisation of banking institutions. The reforms also include strengthening financial institutions through steps to comprehensively restructure the sector and encourage bank mergers.

The initial international reaction, when we introduced the selective exchange controls, was to condemn Malaysia. It was said, among others, that Malaysia was turning its back on the free market system. The truth of the matter is that as the world's 17th largest trading nation, Malaysia remains committed towards efforts to facilitate and liberalise trade and investment.

Malaysia was very conscious that its decision to control the exchange rate was a move fraught with danger. As it turned out the signs of recovery appeared immediately after the controls were instituted. The success of the measures has now been recognised by many including the IMF and UNCTAD.

With the successful implementation of the measures, the Malaysian economy has recovered from a negative growth of 7.5% in 1998 to a positive growth of 5.8% in 1999. The Malaysian economy is now on sustainable growth, and it is forecasted to grow at 7.5% this year.

Ladies and Gentlemen,

We believe there are some general lessons that could be drawn from our experience in dealing with the financial crisis. One important lesson that Malaysia has learnt is the strategies adopted in managing a financial crisis must be structured to meet country-specific circumstances.

Without saying that globalisation and liberalisation should be rejected as process, we should address the downside to globalisation. Not all countries had benefited and many had been marginalized by globalisation. It was evident the international financial system was flawed. Excessive blame was being placed on a country in crisis, but little on financial markets. It has been recognized that instability in international financial markets was global and systematic, and national efforts would not be sufficient to deal with the problem.

Hence, there is an urgent need to overhaul and indeed reconstruct the global financial architecture. Malaysia's position is that reforms in the international financial system must be comprehensive to address the risks and challenges of globalisation. These include the following:

* Reforms must include a review and complete overhaul of not only the role of the IMF, but also the World Bank, and other international financial institutions (IFIs) and regulatory agencies. A review is required on how regional IFIs can assist in the

capacity building of regional financial systems to avoid or reduce the impact of another crisis. The aim is to:

- Introduce global prudential safeguards to ensure orderly stable conditions in the international financial system, so that the benefits of globalisation can be maximized while reducing the risks involved.
- Enhance transparency and accountability of the IMF, other multilateral and regional institutions for their actions.

* Reforms in the international financial system must take into account the interests and circumstances of all countries. The industrial and developing countries must be equal stakeholders in implementing any reforms.

* There is a need to ensure symmetrical treatment in encouraging both the public and private sectors to be more transparent in order to promote efficient and stable financial markets.

- The private sector should also be subjected to transparency standards to make them more accountable for their actions, particularly in relation to cross-border capital flows, and the role of highly leveraged institutions

* There is a need to establish an appropriate mechanism at the national and international level to avoid excessive volatility of short-term capital in cross-border financial market activities. This would include appropriate international rules against market manipulation and prudential standards in financial institutions, especially on exposure of commercial banks to the highly leveraged institutions (HLIs).

However, so far very little progress has been made in the reform of the international financial architecture, especially on issues of concern to developing countries.

Action in the international community has so far concentrated on setting standards on key macroeconomic measures and transparency of public sector activities. Less progress has been made regarding the financial reporting of banks and other financial institutions and almost none in the case of highly leveraged institutions including hedge funds. Too little attention is being paid to policies of developed countries as they affect developing countries' exchange rate. Every emerging-market crisis of the 1980s and 1990s were associated with major swings of exchange rates and liquidity position of major industrial countries.

The Financial Stability Forum (FSF) had made proposals to address the risks posed by over-the-counter trading of financial derivatives and other activities of highly - leveraged institutions. Despite the recognition of the destabilising activities of the highly-leveraged institutions, there is yet no implementation of the recommendations of the FSF.

We are aware of the conceptual and technical difficulties in designing reasonably effective global mechanisms for the prevention and management of financial instability and crises. However, political constraints and conflict of interest appear to be the main reason why the international community has not been able to achieve even a modest real progress in setting up a new international financial architecture.

There have been considerable differences among the G-7 members regarding the nature and direction of reforms.

For the international financial architecture to move forward, there is a need to adopt a more practical rather than ideological objective for the new international financial system. In this regard, the developed countries need to first accept that globalisation does have adverse outcomes and some "management" of globalisation is required to maximise its benefits without having to accept these benefits at any cost.

Malaysia has continued to articulate on the need to reform the international financial architecture at various international forums but we need the necessary backing and support. To enhance collaboration by G-15 member countries on issues related to reforms of the international financial architecture, it is necessary for more G-15 members to speak out. It would not be sufficient to merely put words in a communiqué or declaration.

Thank you.