



Permanent Mission of
Malaysia
to the United Nations

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Statement by the Hon. Ahmad Husni Mohamad Hanadzlah, Finance Minister II of Malaysia at the High Level Conference on the Global Financial and Economic Crisis, New York, 24 – 26 June 2009

Mr. President,

Allow me to begin by thanking you, Mr. President, for convening this meeting and for your strenuous efforts in ensuring its success.

Mr. President,

2. We are all too aware of the effects of the crisis, particularly on the weakest who are suffering through no fault of their own. We are now also clear on its causes, which are primarily in a 'casino capitalism' mentality focusing solely on short term gains regardless of risk, which viewed regulation with scorn coupled with an imbalanced global economic model dependent on consumption regardless of debt.

3. At the same time, the tentative green shoots of recovery seem to be withering away. The latest World Bank report now indicates that the global economy will contract by 2.9 percent this year, compared to a previous estimate of 1.7 percent. Paradoxically, the price of petroleum has increased. Countries may be tempted to take protectionist measures, further threatening recovery. Indeed, studies have shown that notwithstanding commitments made at the G20 meeting in London, 17 of the G20 members had taken protectionist measures. A combination of these threatens especially the most vulnerable economies, which are dependent on aid and which possess no oil reserves of their own. The situation remains dire.

4. Against this backdrop, I firmly believe that we should now focus on the immediate and view the past only to the extent that it can inform us of future action.

5. What is important at this stage is to consolidate our efforts in ameliorating and mitigating the effects of this crisis and in preventing its recurrence. In doing so, our actions must be guided by what works - far more difficult to achieve in these uncertain times, rather than the false comfort of ideology. It was a certain ideology, or rather an economic belief system, which was the cause of our present troubles. Our problems can only be resolved if we view it as a common endeavour requiring collective action. Focusing on ideological battles, which tend to divide and not unite, is inimical to finding what will work to address our present troubles.

I therefore call for unity and a common focus.

Mr. President,

6. Identifying what works requires a fundamental rethinking of, and action on, the following issues:

6.1 One: The relationship between consumption, debt, risk and economic growth. We cannot afford a return to a model in which global economic growth is underpinned by the demand of consumers here in the US borrowing more, sustained only by the purchases by the rest of the world of American financial instruments, whether toxic or safe;

6.2 Two: Finding the optimum balance between a level of regulation able to prevent bubbles and which still promotes innovation in the financial markets. The present crisis has proven the falsehood of the argument that if markets are unable to recognize bubbles, regulators are not able to either. While regulators are imperfect, experience has shown the cost of doing nothing, especially in a globalised and interdependent economy, is far higher than the cost of mistakes by the regulators;

6.3 Three: The role of financial institutions, which I believe must return to their central role of allocating capital most efficiently to the most productive investments and activities. Further, so central is the health of financial institutions to the overall health of the economy, regulators must better protect the capital of these institutions from undue risk, including by taking measures to separate riskier proprietary trading from commercial banking;

6.4 Four: The international financial architecture must do a better job of informing and alerting governments of the systemic flaws. Its reform is also required so that it better reflects changing realities and better takes into account various needs and perspectives; and

6.5 Five: At the same time, there must be greater cohesion between the international financial system and the broader international development system, encompassing trade, aid and the environment so that one works in favour of the other. We must close the gap between the two, just as we must bridge the gap that exists between the financial sector and the real economy at the national level. Given the breadth of its activities, the legitimacy it derives from equal universal membership and the provision of its own Charter, the United Nations system as a whole has an important role to play. At the same time, we must ensure that we undertake consistent and sustained action on these matters in all fora and bodies.

7. As for Malaysia, despite the strong fundamentals and sound macroeconomic policies in place, we have not been spared from the effects of the crisis. Immediately after the global economy's "hard landing" in September last year, our fourth quarter GDP growth registered only 0.1 percent, after averaging 6.3 percent during the first 9 months of the year.

8. To mitigate the effects of the global downturn on our economy, we have since instituted two Stimulus Packages in November last year and March this year, to the tune of almost US\$20 billion. Effective and efficient mechanisms were also put in place to ensure that the objectives of the stimulus packages are achieved.

9. Despite these measures, our economy continues to be impacted by plummeting external demand, particularly for exports of manufactured goods and commodities, resulting in a worse-than-expected GDP contraction of 6.2 percent in the first quarter of 2009.

10. Many governments, including my own, have undertaken stimulus measures. As it is, while governmental action may have ameliorative effects and will help to resuscitate a sick economy, long-term growth and economic health cannot be achieved in the absence of increased private demand, which in turn is dependent on a quick resolution of global private debt. The key question that we therefore face is whether unprecedented global stimulus actions already undertaken is sufficient to avoid financial collapse and the effects of equally unprecedented levels of global private debt.

11. In this connection, it is instructive to note that figures indicating that US households have repaid only 3.1 percent of their debt over the past two quarters indicate that further aggressive monetary and fiscal policies are needed in the future. Clearly, more will need to be done, and we must do what it takes.

I therefore call for us to take further collective action.

Mr. President,

12. Allow me to repeat a cliché – *“there is opportunity in troubled times”*. For Malaysia, we are using this time to make our economy more broad-based and better placed to optimise opportunities that would emerge when the global economy recovers. The new economic model will leverage on innovation, creativity and entrepreneurship to spawn high value-add industries.

13. The new model will focus on liberalising the services sector in view of its potential to expand rapidly and contribute significantly to economic growth. The process of liberalising our services sector has begun with the removal of equity conditions on 27 services sub-sectors, and subsequently, with the further liberalisation of the financial sector. More are to come.

14. I want to be categorical - we are not liberalising to conform to some new economic orthodoxy nor is it for the sole purpose of attracting foreign investments and capital. Our objective is clear: to ensure that Malaysians benefit from the competitive dynamics that are shaping the global marketplace for ideas, talents and funds, so that Malaysians can emerge stronger, become more globalised and ultimately thrive in this new world.

15. Despite the debunking of economic theories such as rational expectations, we all know in our hearts that economic progress is often associated with our expectations for the future. Governments all across the globe must therefore foster hope amongst our peoples and ensure that from this crisis there will emerge a new dawn.

I therefore call for the creation of a new economic system that will benefit all.

Thank you.