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Statement by H.E. Ambassador Muhammad Shahrul Ikram Yaakob, Leader of the Malaysian Delegation to the International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, Doha, Qatar, 29 November – 2 December 2008

Thank you, Mr. President,

At the outset I would like to express my sincere appreciation to the Emir of Qatar, His Highness Sheikh Hamad bin Khalifa Al Thani for hosting this important conference and for the excellent arrangements and generous hospitality extended to my delegation. It is also an honour for me to associate my delegation to the statement made by the distinguished representative of Antigua and Barbuda on behalf of the G77 and China.

2. I also join the other speakers before me in extending my government's deepest condolences to the government and people of India for the loss of innocent lives at the recent terrorist attacks in Mumbai.

3. We are meeting today in the midst of the gravest financial crisis in living memory. The financial system as we knew it appears to be collapsing, most likely beyond repair. When we met in Monterrey in 2002, few of us, if any, would have predicted that we would be meeting now amidst this situation. We would all have hoped that things would be better and we would have learnt the lessons of the Asian Financial Crisis then.

4. The current crisis has demonstrated the fragilities in even the most sophisticated financial markets. They brought to the forefront issues regarding financial intermediation, financial innovation and the related regulatory and surveillance systems needed to provide the necessary oversight over the activities of the financial sector.

5. Just as importantly, these events have destroyed the most fundamental assumption underpinning the global financial system. We can no longer assume that left alone, a self-regulating financial market drawing on technology and innovation will efficiently allocate capital to the most productive sector of the economy.

6. What are the underlying causes of this catastrophe? In my opinion there are at least three reasons:

One, the combination of a misaligned incentive system, a favourable economic environment and heightened competition generated excessive risk-taking by financial institutions;

Two, there were significant gaps in the extent and manner of public disclosures made by financial institutions regarding their on- and off- balance sheet risk exposures. As a result, the effects of market discipline did not occur as expected, while regulators

who relied on market discipline, did not act preemptively to impose discipline where and when needed; and

Three, developments in the regulatory, accounting and macro-surveillance frameworks had neither anticipated nor provided for the complex inter-linkages of the modern financial system.

7. Given the above reasons, I believe that we together must take, among others, the following measures:

We need to rid ourselves of the notion that regulations are inherently evil and left to themselves, financial markets will be self-correcting. They may in the end be, but the societal costs may be too high and self-correction may take too long.

We need to therefore find the optimum balance between, on the one hand, a level of regulation that will prevent extreme volatility in the financial markets and therefore protect society from its effects, and on the other, continue to promote innovation in the financial markets;

Regulators must be vigilant in enforcing rules and prudential standards. Given that we have yet to fully understand the full ramifications of the exotic financial cocktails, it is only right that we err on the side of caution in setting capital adequacy standards;

We need to get back to basics. The main purpose of financial markets is to allocate capital most efficiently to the most productive investments and activities. Rewards must be given on this basis. Let us be clear that the raison d'etre of financial markets is not to enable financial whiz-kids peddling their false alchemy to get rich. Let us therefore put an end to this `casino capitalism'. It is interesting to note that Islamic financial instruments, which eschew speculation, remain relatively unaffected;

We must find a mechanism that will promote rapid multilateral responses to situations such as these. Given the inter-relatedness of the global financial markets, no country on its own can effectively stem the contagion effect. At the same time, recent events have demonstrated that capital is inherently a coward and too easily feeds on its fears. Both of these factors make for a rapid downward spiral, making quick, effective and coherent responses from governments vital. At the same time, multilateral responses are effective only to the extent that they are credible and well-coordinated.

Mr. President,

8. The dramatic fall in share prices all over the world, indicates that the exchanges in the developing world have yet to decouple from the exchanges of the developed world. Indeed, so severe were the effects that trade have been suspended in some. Further, we are now seeing how the fall in global consumption will affect the exports from the developing world.

9. But the effects of the financial meltdown will go beyond the stock markets and trade. What is perhaps most worrying is that it might result in a momentum towards a protectionist or isolationist drift being generated. These can take the following forms:

Firstly, while we are unlikely to witness a repeat of 'beggar-thy-neighbour' policies of the 1930s which catalysed the Great Depression, there may a temptation on the part of the developed world to introduce new trade barriers, such as green tariffs, ostensibly to help address the climate change challenge;

Secondly, as Sovereign Wealth Funds (SWFs) play a bigger role in global markets, that their activities will lead to foreign control over strategic assets. The tendency to demonise these investors is already taking place. On the one hand, they are portrayed as buccaneers praying on the helplessness of these financial companies. On the other, the governments of the SWFs are accused of contributing to the present liquidity crisis by hoarding capital through their huge current account surpluses;

Thirdly, while US leadership in the trade talks is no longer sufficient to ensure success, it is still necessary. The present situation will compromise this ability to lead. Indeed, some surveys has shown a dramatic fall in the US for open trade compared to five years ago, in contrast to the situation in other developed as well as emerging economies; and

Fourthly, it is very possible that ODA levels will fall. As it is, it fell even when times were good, dropping from $107.1 billion (2005) to $104.4 billion (2006) and $103.7 billion (2007).

10. Stemming the protectionist or isolationist drift requires that:

The developed world recognize its mistakes and rectify them, recognizing that there will be pain involved;

We nurse the global economy back to health, including by, but not confined to, the measures outlined earlier;

Trade negotiations move apace as a means of fulfilling trade's full potential to finance growth. Achieving this requires that development be placed at the heart of the negotiations;

Give the emerging economies their rightful place in the international economic system, recognizing that there is a fundamental change in the international economic structure. Currently, the governments of Asia and emerging oil exporters control US$7 trillion of financial assets, which could rise to US$15 trillion in 2013. However as matters stand, the emerging economies are continuously pressured to also act, without giving them the inducement to do so; and

We take steps to ensure that the developing world as a whole, and not just the emerging economies, can act as engines of growth in the event of a future downturn. This implies that ODA and other related measures be increased and intensified. This will act as a global anti-cyclical measure for now and the future. One way of achieving

this is for the UN, in collaboration with the Development Assistance Committee of the OECD, to establish a mechanism to monitor ODA flows.

11. Given that finance is the lifeblood of growth and the present turbulence in the international financial system whose final impact has yet to be seen, it is critical that an effective follow-up to this conference be established.

Mr. President,

12. Through no fault of our own, the turbulence surrounding the international financial system has made it increasingly difficult for developing countries to achieve our developmental goals. The reform of the international economic structure must be centred on the developmental aspirations of the world's poor. Only then can we have a system in which humanity's poorest will be its primary beneficiaries, and the weak will cease to suffer what they must and the powerful do what they can.

Thank you for your attention.

1 December 2008