



Malaysia

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Permanent Mission to the United Nations

STATEMENT BY

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TO THE UNITED NATIONS

ON
AGENDA ITEM 83:
MACROECONOMIC POLICY QUESTIONS
(b) INTERNATIONAL FINANCIAL SYSTEM AND DEVELOPMENT

BEFORE THE SECOND COMMITTEE
DURING THE 59TH SESSION OF
THE UNITED NATIONS GENERAL ASSEMBLY
NEW YORK

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Mr. Chairman,

1. Let me first express my delegation's appreciation to the Secretary General for his report A59/218 on this agenda item.

2. My delegation associates itself with the statement made earlier by the Distinguished Representative of Qatar, on behalf of the G 77 and China. We also align ourselves with the statement made by the Distinguished Representative of Indonesia on behalf of the Association of Southeast Asian Nations (ASEAN). We would like to take this opportunity to address our intervention generally on International Financial System and Development under sub-agenda item 83(b).

Mr. Chairman,

3. The Asian Financial Crisis of 1997 and the contagion effect that subsequently swept through many countries across the globe clearly demonstrated the vulnerabilities faced by developing countries and the frightening imbalances in the global economic environment. Despite the devastating setbacks, developing countries did not seek to entirely blame the free market economy. After all, it was our faith in the free market that enabled many developing countries to enjoy unprecedented growth. One important thing that was learnt at great cost was that the international financial architecture had not been crafted to protect small and fragile emerging economies that lack the necessary institutional capacity.

4. Having endured the painful lesson of the unfettered and poorly regulated activities of speculators, Malaysia and other developing countries had repeatedly called for reform of the international financial architecture to make it more supportive and protective of small emerging economies. Unfortunately these calls did not gain much attention from those who wield control over the system. There has been a reluctance to circumscribe the activities of the financial speculators. Although some efforts have been made, these still fall far too short of what has been expected and demanded by developing countries. The Secretary General in his report too had reaffirmed that developing countries remained highly vulnerable to global uncertainties and risks despite developing countries taking a wide range of measures to improve and strengthen their financial regulation and supervision in order to contribute to a more stable international financial architecture.

8. While calling for the necessary reform of the international financial architecture, we are also mindful of the need for individual countries to undertake the necessary reform of their financial systems. We believe that the strengthening of the domestic financial system is necessary to ensure a stronger and more facilitative regulatory regime. In this connection Malaysia has taken measures toward the establishment of a market-based system of regulation for

Mr. Chairman,

5. Malaysia would have wished for a more comprehensive reform of the international financial architecture that would provide a friendlier financial environment for developing countries. We think that more needs to be done. Nonetheless, we appreciate whatever little initiatives that have been taken to improve the system. We fully concur with the view of the Secretary General that considerable attention and focus must be given to the areas of crisis anticipation and prevention. We support the idea that the IMF, while maintaining surveillance on developing countries, should also apply closer surveillance on policies of major developed countries that have a greater impact on the global economic environment. Of equal importance is the need to improve information and transparency in the market, including in particular the role of hedge funds.

6. In this regard, I would like to quote the comments made by the Honourable Tan Sri Nor Mohamed Yakcop, Second Finance Minister of Malaysia, regarding IMF surveillance made at the 2004 Annual Meeting of the Board of Governors of the International Monetary Fund (IMF) and the World Bank Group in Washington D.C. on 3rd October 2004 as follows, "The IMF should be more focused on surveillance issues central to its mandate; and that the quality of policy dialogue between IMF and member countries should be improved by making better use of cross-country experiences. In addition the IMF should not overdo the need for transparency at the expense of its role as a confidential advisor to members. Equally important, the consideration to make IMF surveillance more effective should include the accountability factor where the IMF should be held responsible for the policy advice that they provide to member countries."

7. On the issue of transparency and disclosure, Malaysia is of the view that so far too much emphasis has been given on enhancing the transparency in the public sector. It would be equally important also to enhance the quality of information derived from the private sector as well. We believe that greater transparency in both the public and private sector would promote a more efficient and stable global market as a whole. We have noted with satisfaction that encouraging progress have been achieved in persuading the private sector including the highly leveraged institutions, rating agencies, and offshore financial centres to be more transparent in their operations.

Mr. Chairman,

8. While calling for the necessary reform of the international financial architecture, we are also mindful of the need for individual countries to undertake the necessary reform of their financial systems. We believe that the strengthening of the domestic financial system is necessary to ensure a stronger and more facilitative regulatory regime. In this connection Malaysia has taken measures toward the establishment of a market-based system of regulation for

capital market activities. At the same time we have also taken actions to ensure regulatory parity consistency between all institutions and participants conducting similar market activities.

9. In addition Malaysia has also instituted measures that would help to ensure enforcement of the regulations governing the capital market. Another important move to realize the necessary reform of our domestic financial system is our efforts to enhance the capacity to maintain systemic and financial stability.

10. Besides Malaysia, there are many other developing countries that have initiated the well needed reform to their domestic financial system. However these efforts are insufficient to ensure financial stability. Given the interconnectedness of global financial markets, international efforts involving key international financial institutions need to be pursued and strengthened to ensure financial stability.

Mr. Chairman,

11. Malaysia had participated at the IMF Boards of Governors Annual Meeting held recently in Washington D.C. on October 3rd 2004. We share the views put forward by the Development Committee Communiqué at the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on Transfer of Real Resources to Developing Countries on 2nd October 2004.

12. Finally Mr. Chairman, as next year would mark an important year where we would review the status of implementation of various outcomes and follow-up to major summits and conferences, my delegation would like to once again reiterate our call for a reform of the international financial institutions. While other multilateral and international bodies have undergone or are undergoing reform and restructuring in order to contribute to meeting the agreed social and development agenda as reflected in the outcomes of major summits and conferences, it is time for the Bretton Woods Institutions to respond positively to the call for reform. Such a reform should ensure wider, more inclusive and more equitable participation of developing countries in the policy planning as well as decision making process of these important institutions.

I thank you Mr. Chairman.