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**Statement by Raja Nushirwan Zainal Abidin, Representative of Malaysia on Agenda Item 52: `Macroeconomic Policy Questions: (a) International Financial System and Development (b) External Debt Crisis and Development at the 2<sup>nd</sup> Committee of the 62<sup>nd</sup> Session of the United Nations General Assembly, New York, 15 October 2007**

Madam Chair,

I would first like to associate myself with the statements made by Pakistan on behalf of the G77 and China, and Indonesia on behalf of ASEAN. I would also like to thank the Secretary-General for his reports on the subject.

Madam Chair,

2. Reading the reports, one cannot help but be struck by three things. The first is the uneven progress in terms of both fulfilling the targets which we have agreed to, and the lack of progress in the areas identified. The second is the sheer global inertia that exists and persists. The third is that how easily all of us are pleased by the sheer repetition of platitudes. In all likelihood, all three are inter-related. Perhaps this is motivated by our need to feel, rather than to do good, but that takes us into the realm of psychoanalysis, so clearly this is not the forum.

3. Let us first take the example of ODA. We commend some of the recent positive developments in this regard:

- 3.1 There has been a significant increase in the level of ODA since the adoption of the Monterrey Consensus;
- 3.2 Promises of additional, time-bound commitments made, particularly by the EU; and
- 3.3 Some members of the OECD/DAC have fulfilled or gone beyond the 0.7 percent target.

4. Despite these positive developments, we should on balance however, be more concerned with some of the other more negative developments related to ODA, which include:

- 4.1 Firstly, much of the increase in ODA since 2002 is accounted for by debt relief, technical and humanitarian assistance;
- 4.2 Secondly, the resources released for actual development is much smaller than those indicated by the aid statistics;
- 4.3 Thirdly, ODA in 2006 fell by 5.1 percent in constant US dollars compared to 2005; and

4.4 Fourthly, even taking into account the new commitments made, ODA will at best reach 0.36 percent in 2010, far below the 0.7 percent target, although higher than the present rate of 0.30 percent.

5. While there exists a wealth of literature related to ODA, analyzing among others its volume and effectiveness, Malaysia believes that the key issue which needs to be tackled squarely is to what extent is the term 'development' in ODA actually is development. In other words, what we now need to look at is not new and additional sources of financing for development, but rather, new and additional actual sources of financing for development.

Madam Chair,

6. Inertia and platitude also seem to be prevalent in efforts to reform the international financial architecture, which was given impetus a decade ago following the Asian Financial Crisis. Crises have come and they have gone, leaving the lives of millions devastated in their wake. Yet the international financial system remains unchanged, deaf and increasingly muter.

7. This time last year, some progress was made with regard to reviewing the IMF quotas of those countries for which the discrepancy between their quotas and economic significance were the largest. These countries were China, Turkey, Mexico and the Republic of Korea.

8. In this connection, I can do no better than to recall the words of Malaysia's Second Finance Minister made at the IMF's International Monetary and Financial Committee on 17 September last year:

*'We underscore the importance of expeditious forward momentum to this long-overdue reform process. Moreover, we cannot overemphasize the need for clear political commitment, especially from advanced country members, towards making significant progress on the second stage immediately after the Singapore (meeting). This is to ensure those members who have incurred a down-payment by having their quota shares further eroded by the stage one ad hoc increase that the entire quota reform process will indeed be a credible and meaningful exercise and that they will be able to justifiably benefit from a broader and more comprehensive reform in the second stage'. – End of quote.*

9. It needs to be recalled that as a result of the first phase of the IMF quota reform process, Malaysia saw its percentage reduced from 0.7 to 0.68 percent. In contrast, the IMF's own calculations show that Malaysia's quota based on traditional quota formulae should increase to 1.40 percent. We are therefore gravely concerned at the lack of progress in the second phase of the process, noting that discussions on the quota formula issue are to terminate in spring of next year.

10. This lack of progress on IMF quota reform is not half of the story. Let us put the issue in perspective, so we can, as was said, 'put context into the text'.

11. The broader issue, of which voice and participation is but a small part is that of the IMF's future legitimacy, credibility and relevance. The fact that many from the developing world have repaid most or all of their loans, with others wary of taking new ones, is a manifestation of the unhappiness at the IMF's heavy handed ways.

12. Let it be known that experience has shown that developing countries have been more able to stomach austerity measures than the developed world. As an example, Malaysia has

reduced our budget deficit from more than 5 percent in 2000 to around 3 percent today. What developing countries have problems with therefore is not austerity per se, but being forced to take the wrong kind of advice of needless austerity, based on an ideological, rather than a pragmatic and realistic perception of the world.

13. To continue to remain legitimate, credible and relevant, the IMF must wean itself off ideology. It must return to its original mandate. It must rely more on the power of analysis and persuasion. It must cease to be the instrument of the rich and the powerful.

Madam Chair,

14. Increasing instability in the international economic system is a major obstacle which developing countries face in our efforts to achieve sustained economic growth and to improve the general welfare of our peoples. Nowhere else is this more pronounced than in the sphere of international finance.

15. It should be noted that a few months ago, the major problem facing the international financial system was the unruly winding down of global imbalances. While pressing, some were optimistic that this issue could be resolved with greater coordination and cooperation between the major economies. During that time, the outlook for the international financial system was relatively benign. Foreign exchange reserves were increasing, capital markets were thriving, due in part to innovation which enabled consumers to buy more, and funds were flowing in relatively large gross and net amounts to many developing countries as well as industrial countries with current account deficits.

16. However, in-built into success were the seeds of crises. The innovative financial instruments, which enabled those who were otherwise not credit worthy enough to borrow and which enabled these risks to be spread more evenly among financial institutions worldwide, also ensured that the contagion would be spread more widely once reality sets in. Like the game of musical chairs, the music stopped. Only the chairs that investors, or speculators as they be should more appropriately called, thought were there had disappeared. Central banks that were expected to provide replacement chairs only came up with cushions.

17. It is said that while success has many parents, failure is an orphan. Scapegoats are currently being sought. Some are targeting the former Chairman of the US Federal Reserve Bank for holding interest rates too low for too long. The rating companies are being blamed for being too lenient and not warning investors of the risks involved. They are also being blamed for their conflicts of interests, for advising the companies that they were overseeing. The irony is that the failure of the ratings agencies has been commented on before, in the wake of the Asian Financial Crisis. Nothing was done then.

18. But we in the developing world are weary-wise to this. There will be some bloodletting, resignations will take place, and admonishments will be the order of the day. But at the end of the day, the circus will continue. It will continue because the present system amplifies greed. Greed is good, greed is right, was the mantra exactly two decades ago prior to Black Monday in 1987. It was the same exactly a decade ago in 1997 and now. It is noteworthy that while the rest of the retail sector in the US has suffered, companies involved in luxury goods continue to enjoy brisk sales and robust growth, indicating the widening gap that exist between the haves and the have-nots.

Madam Chair,

19. Solid macroeconomic policies and its full execution is a requisite for developing countries to survive and prosper in these turbulent times. This sometimes means that we have to act in the face of conventional wisdom. For example, criticisms have been leveled against developing countries for building up their foreign reserves resulting from current account surpluses, as a contingency against international financial crises. Some have stated that China's current account surpluses alone, forecasted by the World Bank to reach US\$ 380 billion this year compared to US\$ 250 billion last year, is extracting demand from the rest of the world to the tune of 0.75 percent of the latter's aggregate GDP. We have been advised to strike the right balance between possible increases in intermediation costs of such a policy against the cost of a future system-wide crisis. But this is clearly easier said than done, for at least three factors:

- 19.1 One, the activities which are most likely to result in system-wide crises of the future is not likely to come from economic actors based in the developing world. This makes it impossible for us to know, let alone control these activities;
- 19.2 Two, the development of increasingly exotic financial instruments make it difficult to predict the extent of future crises; and
- 19.3 Three, there is no other fall-back position that will take into account the need to protect the overall welfare of our peoples, which must at all times be uppermost in the minds of all legitimate governments.

20. For its own part, the Malaysian government will continue to build on macroeconomic policies which have served us well in the past, adjusting them to suit contemporary reality. As a result, our growth prospects is expected to remain strong, with growth projected between 6 and 6.5 percent next year. Driven by stronger private investment expected to expand at 9.5 percent and private consumption at 7.9 percent, per capita income is expected to increase by 6.8 percent to a purchasing power parity equivalent of US\$ 14,206. What is more, we will continue to have large financial reserves.

Madam Chair,

21. 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 financial system must therefore proceed apace, 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.