



Permanent Mission of
Malaysia
to the United Nations

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STATEMENT BY THE HONOURABLE MR. AHMAD HAMZAH, MEMBER OF THE MALAYSIAN PARLIAMENT ON AGENDA ITEM 47: 'MACROECONOMIC POLICY QUESTIONS' AT THE SECOND COMMITTEE OF THE 63RD SESSION OF THE UNITED NATIONS GENERAL ASSEMBLY, NEW YORK, 13 OCTOBER 2008

Thank you, Madam Chair.

I would like to first associate my delegation with the statements made by Antigua and Barbuda on behalf of the G77 and China and Indonesia on behalf of ASEAN.

2. The financial world changed last month. We witnessed not the end of the world, but the end of a world. These events 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 these activities.

3. Just as importantly, these events questioned the fundamental assumptions underpinning the global financial system.

4. What were the underlying causes of this catastrophe? I believe that they are at least threefold:

- 4.1 One, the combination of a misaligned incentive system, a favourable economic environment and heightened competition generated excessive risk-taking by financial institutions;
- 4.2 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
- 4.3 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.

5. What needs to be done?

- 5.1 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;
- 5.2 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;
- 5.3 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;
- 5.4 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'être 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'; and
- 5.5 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.

Madam Chair,

6. 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 was suspended in some. Further, it is inevitable that the fall in global consumption will affect the exports from the developing world.

7. 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. These can take the following forms:

- 7.1 Firstly, while we are unlikely to witness a repeat of 'beggar-thy-neighbour' policies of the 1930s which catalysed the Great Depression, there may be a temptation on the part of the developed world to introduce new barriers,

such as green tariffs, ostensibly to help address the climate change challenge;

- 7.2 Secondly, as Sovereign Wealth Funds (SWFs) play a bigger role in global markets, there will be an increase in unfounded fear 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 preying 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;
- 7.3 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
- 7.4 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).

8. Stemming the protectionist or isolationist drift requires that:

- 8.1 The developed world recognize its mistakes and rectify them, recognizing that there will be pain involved;
- 8.2 We nurse the global economy back to health, including by, but not confined to, the measures outlined earlier;
- 8.3 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;
- 8.4 We take steps to ensure that the developed 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.

9. 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, 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.