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MALAYSIAN INTERNATIONAL ISLAMIC FINANCIAL CENTRE
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“BEYOND THE GLOBAL CRISIS: A NEW ASIAN GROWTH MODEL?”**

**VENUE: ROYALE CHULAN HOTEL, KUALA LUMPUR
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“The Asian Growth Model: Beyond Regional and Global Crises”

Tan Sri Dato’ Sri Dr. Zeti Akhtar Aziz, Governor, Bank Negara Malaysia,

His Excellency Mr. Vincent Piket, Ambassador and Head of Delegation of
the European Commission to Malaysia,

Dr. Jong-Wha Lee, Chief Economist and Head of the Office of Regional
Economic Integration at the Asian Development Bank,

Distinguished guests,

Ladies and gentlemen

1. A very good morning to all of you. Let me say what a pleasure it is for me to be here this morning to address this important conference, called at an important time. It has been a highly dramatic thirteen months since September of last year, and I am sure all of you are glad to have seen the back of them. The good news is that we survived. The challenge now is see if we can thrive. The signs seem to be pointing upwards and there is light at the end of the tunnel. But how long and how strong this economic rebound will be are still actively debated.

2. I hope that the worst is now behind us. But if there is one thing we should learn from the recent past, it is to regularly and critically check our beliefs and assumptions. We must be wary about the dangers of groupthink. We should recognise the dangers of endowment effects. People tend to cling to their ideas simply because they are ‘their’ ideas. Unquestioning acceptance of policies was a factor in getting us here in the first place. We should not allow it to keep us there.

Asian growth model

3. It is in this spirit that I want to share my thoughts with you this morning on the subject of Asia’s growth model after the crisis. The actions taken in the coming months and years will have a lasting impact in solidifying the recovery and shaping the future. The question that I want to pose is as follows: Should we change Asia’s growth model, that is, the basic components and relationships that produce its economic growth, or do we want to alter its growth strategies? Put in simpler analogous terms, do we want to change ‘the vehicle that we are in’ or ‘the direction in which we are heading’?

4. I note that you will be deliberating on Asia’s ‘export-led’ growth model in Session 2 this afternoon. Allow me to make a few observations. First, discussions these days tend to focus on just the one aspect of the Asian growth model, that is, the high propensity to export. The Asian growth model, however, is not only about exports. High savings and physical investments, fiscal and monetary discipline, strong work ethic, an emphasis on acquisition of education and skills, social policy are all equally important elements of the model. Some see other forces at work. These include state intervention, currency undervaluation, and collusion and non-competition.

5. I say this not to make the subject unnecessarily unwieldy but to guard against over-simplifying the Asian growth model. Asian economic development is a work-in-progress and not a finished product. Despite remarkable socio-economic improvements over the last few decades, Asia is still home to almost two-thirds of the world's absolute poor. Economic growth has enabled countries to break free of their development constraints and lift millions out of poverty, but many more millions have not. Still, the region is a model for the developing world because it has been able to rise above those trapped at low levels of development. It would be a great pity if, in seeking to rectify the problems of the world economy, we end up altering Asia's fundamental strengths.

6. Second, a great deal of the export debate is unjustifiably one-sided. Time and again Asia is made out to be enriching itself at the expense of others. I do not think this is a fair accusation because it forgets that there is a mutuality of interests and benefits. The world economy has become globalised enough, interdependent enough and sophisticated enough to sustain the practice. To be sure, many Asian countries behaved conservatively after the shock of the Asian Financial Crisis. But this period also saw the emergence of the Chinese economic powerhouse after its 2001 membership in the World Trade Organization. And it coincided with economic policies in the West that encouraged almost recklessly high levels of consumption.

7. I believe the time has come to shift gears and to change destinations. We now have the means and the opportunity to go even further, and to achieve even more, in sustainably elevating the standards of living of the present and future generations. Charting an ambitious new course of action

is in the interests of the countries concerned, the region and the world economy. The global savings-investment imbalance is so acute that there must be a massive adjustment if the world economy is to return to anything resembling normalcy. This readjustment process can be relatively smooth and orderly or abrupt and disruptive. The choice is largely ours.

8. It is in the interests of Asian countries, both capital surplus and capital importing, to address the global macroeconomic imbalance. Asia's traditional export markets in the West are weak and poised to grow at much slower rates over the next few years as fiscal and monetary balance is gradually restored. Rising pressures and protectionism are also threatening to constrict trade and investment as governments seek to pander to their domestic constituents. At the same time, competition is high as many more countries and regions aspire to join the ranks of exporters.

9. Asia also has massive development needs such as ensuring food and energy security, sanitation, health care and education. Sitting on piles of cash when there are burning social needs is perhaps not the most socially optimal use of these funds. These are compelling reasons why Asian countries should actively seek alternative sources of growth.

10. But at the same time we should beware against inciting a new wave of export pessimism. Some of you might remember the 'export versus import' debate that raged in the 1950s. Much of it remains embedded in the 'globalisation versus anti-globalisation' discourse today. If we are not careful, we may repeat history's mistakes and bring down an even greater calamity on us, namely, to sever ties and embark on a self-imposed course of isolationism. It is fine and well to speak of a global decoupling of the sources of macroeconomic growth. This will create much needed stability. But we should ask ourselves this: Would any of us like to see a decoupling of the

linkages among our economies, linkages that have taken a long time to construct?

11. Going forward, there must be greater balance between internal and external sources of growth. Governments and the private sector can do this by committing more resources to physical infrastructure and human capital development so as not only to raise living standards but overall productivity. Many Asian cities have facilities that can rival, if not trump, the best the West has to offer. Mere kilometres from these cities, however, and sometimes also within city limits, access to water, energy and sanitation are limited.

12. Bridging the differences between the urban and rural divide and between haves and have-nots will be a major challenge for governments. They must look more to social rates of return when allocating resources and not simply private rates. Attention must be paid to all the positive externalities and complementarities that create and contribute to human progress and not just economic ones. Again, I would be very interested to hear, in Session 3, the views from Europe about inclusive and sustainable development strategies.

Distinguished guests

Ladies and gentlemen

Beyond the global crisis

13. The bottoming out of the global recession comes not a moment too soon. But what lies beyond the global crisis? Is it a return to business-as-usual? Or do we seek to do things differently?

14. The first point I would make is the need to be vigilant. We do not know the future. All we can do is to make the most sense of present developments so that we can formulate proper policies and plans for the future. We cannot, however, be lulled into a false sense of security and be blinded to the clear and present dangers. The large amount of money that has been created to combat the recession will have to be neutralised or it will pose a problem rather than a solution. Fiscal deficits will need to be reined in, as will the rising levels of debt.

15. The second point is the need for good stewardship. As stewards of national economies policymakers have to act responsibly and not with high-risk, devil-may-care rolls of the dice. Banks and companies that gambled big and lost had to be bailed out by their governments using the 'too big to fail' argument. I see no alternative but to inject a stronger ethical bias into what we do.

16. Allow me to illustrate this by alluding to something that is close to my heart, namely, Islamic finance. Islamic finance is based on the principles of risk-sharing and partnership. Bankers can only do as well as their clients in a transaction and not better than them. The current financial turmoil provides an opportunity for Islamic finance to position itself as a complement to conventional finance by providing investors with other asset classes and markets that provide stability. The principles that underlie Islamic finance have made it less vulnerable to instability and less prone to financial crises. For example, the injunctions that prohibit excessive leverage and speculative financial activities have limited the exposure of Islamic funds to the meltdown of the financial system in the United States and Europe. It therefore comes as no surprise that Islamic financial institutions have weathered the global economic downturn better than their conventional counterparts. At the end of

the day, however, it is not about Islamic or non-Islamic finance; it is about responsible or irresponsible financial transactions.

17. The third point is a related one: Policies must be people-focused. Proper stewardship demands that policies be formulated not only for investors and their money managers but for the ordinary man on the street. Policymakers cannot cater to the needs of the elites and ignore those of the man and woman on the street struggling to put food on the table. At the start of the crisis, stark contrasts were painted between the interests of “Wall Street versus Main Street”. Asia cannot afford its own version of this duality.

18. Fourth, in order to serve our constituents, we really must improve our governance structures and, in particular, address institutional gaps. Good governance is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It ensures that corruption is minimised, resources are not diverted for illegitimate purposes, and that the views of minorities are taken into account in decision-making. Most importantly, it creates strong incentives to not only do the right thing for today, but also for tomorrow. Given the highly interdependent nature of the problems we face, we also cannot afford to approach problems on the basis of compartmentalised concerns. Most of the institutions facing those challenges tend to be independent of each other, and working to relatively narrow mandates with closed decision-making processes.

19. Fifth, I really do not believe that we can solve our current problems and contribute to global economic stability without stronger Asian co-operation in a regional context. This involves not only more closely integrating markets for goods but also services, fixed business investment, financial capital and technology. We have so far been taking only tentative

steps in welding Asia into a coherent market. The time has come to act a lot bolder and decisively and not just for parts and components but for final goods and services.

20. We also need to institute co-operative mechanisms in managing our currencies and foreign reserves. These huge reserves attest to Asia's rising economic power. However, vast quantities of these reserves are exported. If Asian economies are to absorb the region's huge savings, more efficient capital markets need to be developed, in particular the primary and secondary markets for Asian currency-denominated bonds. This will create a more balanced financial system with banks and bond markets forming the two pillars.

21. Quite clearly also, we in Asia should continue the process of inter-governmental cooperation with regard to health, tourism, labour flows, education and human resource development. I hope the Asian Development Bank will continue to take the lead in helping us define the ways in which we can work more closely together.

22. Sixth, and finally, we must make protection and management of our natural resources and the environment a key priority. This is not just a matter of appearing to be responsive to present-day sensibilities. We are entering an age where we will for the first in history share a global calamity of our own making in the guise of man-induced climate change. Not only can we share information and knowledge across borders as never before, we can also share our pollutants and our toxins, to the point where all the inhabitants of our planet will need to make serious adjustments to their lifestyles to continue living on this planet.

23. Asian countries often adopt a 'grow first, clean up later' mentality. There is ample evidence of accelerating environmental degradation in Asia. Asian river systems contain four times the global average level of pollution. In many agrarian societies, climate change has already lowered crop productivity, putting the brakes on food production.

24. We require green investments to improve fuel efficiency and conserve energy, produce renewable energy and limit emissions of greenhouse gases and other effluents. We require systems and institutions to manage and monitor the effects on the environment. Green technology is, however, expensive. Many Asian countries do not have the resources to employ the technology. In this regard, the EU is well placed to assist developing countries to achieve economic growth using less polluting technologies, for example through the Clean Development Mechanism under the Kyoto Protocol. The potential is there. What is needed is the political will to put it into action.

Conclusion

25. It is a pleasure for me to be here this morning. I look forward to hearing your views during the course of this conference. May I take this opportunity to congratulate you, not just on your interest in participating in this conference, but on what you are going to do to contribute to a shared vision for Asia.

Thank you.