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Office of the Resident Coordinator Of The United Nations System's
Operational Activities For Development in Malaysia

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Opening Remarks

at the Launch of UNDP's Regional Synthesis Report on the Global Financial
Crisis and the Asia-Pacific Region and the Malaysian Economy: Impact and
Responses

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Yang Berbahagia Tan Sri Jawhar Hassan, Chairman and CEO of the Institute of Strategic and International Studies (ISIS);

Dr. Ajay Chhibber, Assistant Secretary-General and Assistant Administrator and Director, Regional Bureau for Asia and the Pacific, United Nations Development Programme;

Yang Berbahagia Dato' Dr. Mahani Zainal Abidin, Director General, ISIS;

Professor Dr. Rajah Rasiah, Dean, Faculty of Economics and Administration, University Malaya;

Excellencies;

Distinguished Guests;

Members of the Media;

The United Nations Development Programme (UNDP), with the support of the United Nations Country Team (UNCT) is pleased to co-organise this

launch of two publications today: *UNDP's Regional Synthesis Report on the Global Financial Crisis and the Asia-Pacific Region and the Global Financial Crisis and the Malaysian Economy: Impact and Responses*, in cooperation with the Institute of Strategic and International Studies (ISIS) and the Faculty of Economics and Administration, University Malaya. It is my honour and great pleasure to welcome you to this launch.

The *Regional Synthesis Report on the Global Financial Crisis* was first launched in this region yesterday in Singapore by His Excellency S. Pushpanathan, the ASEAN Deputy Secretary-General for the ASEAN Economic Community. The participation of several ASEAN member countries at the workshop held immediately after the launch provided a strategic platform for the exchange of views on the future economic development path of ASEAN countries and the achievement of the Millennium Development Goals.

The launch of the Regional Synthesis Report in Malaysia today is made all the more significant as it also coincides with the launch of the Malaysian country specific report titled *the Global Financial Crisis and the Malaysian Economy: Impact and Responses*. This Report, commissioned by the UNDP

Malaysia has been prepared by ISIS and the Faculty of Economics and Administration, University Malaya. I am particularly grateful to Dr. Ajay Chhibber, UN Assistant Secretary-General and Director of UNDP's Regional Bureau for Asia and the Pacific who in spite of his busy schedule has kindly agreed to travel to Kuala Lumpur to launch both these Reports today.

Ladies and Gentlemen,

While the effects of the economic and financial crisis have started to abate amidst signs of economic recovery, the configuration of the new economic order that will emerge in the aftermath of this crisis is still unclear. What is clear however is that it will be significantly different from what we witnessed in the pre-crisis era. The combination of indiscriminate lending, excessive risk-taking and overzealous financial innovation that were at the root of the current crisis should not be repeated in the future economic and financial order that we are heading towards. We have witnessed how global imbalances, which resulted in a misaligned incentive system, have led to adverse consequences which included excessive volatility in financial and commodity markets.

While Asian economies have shown a high degree of resilience during this economic and financial crisis, the spillover effects of the crisis have affected most Asian societies and people. The contraction in external demand as a result of the negative growth in developed economies is having far reaching implications particularly for export-oriented open Asian economies. The Malaysian economy, as those of us who live here have witnessed, has not been spared from the spill-over effects of this crisis. Although the Malaysian economy entered this more challenging period following several consecutive years of solid 5%-6% average annual growth together with a strengthened financial sector, the full brunt of the crisis was felt in the first quarter of 2009 with a contraction in economic growth of -6.2%.

The reduction in exports has had its consequent effects on both employment and underemployment and a reduction in GDP, which has created negative multiplier effects across other sectors. In Malaysia, it is expected that the unemployment rate will rise from 3.7 per cent in 2008 to 4.5 per cent in 2009, which amounts to nearly 500,000 unemployed in the workforce.

Changes in employment, income, and prices resulting from this crisis not only directly affect the current standards of living of households but they also have a major impact on household investment in human development, particularly in the area of health and education. Although the crisis has impacted everyone in society, some particularly vulnerable groups can be expected to suffer substantially greater adverse effects. Among these are women, children, youth, the elderly, single parents, the disabled and some categories of low-skilled workers. Within each of these groups, the poor are particularly vulnerable to the crisis. Poor people are affected more than others because they have fewer buffers, and because the range and effectiveness of their buffers are inadequate.

Ladies and Gentlemen,

Most Asian economies had undertaken proactive countercyclical monetary and fiscal policies to ensure continued access to financing and to alleviate the burden of doing business by reducing the cost of financing so as to reduce the impact of the crisis in the real economy. Fiscal expansion as a policy tool was also utilised by most countries in the region, through the introduction of fiscal stimulus packages. In Malaysia, the Government had

also introduced two fiscal stimulus packages totaling US\$18.1 billion or 10.4% of GDP. While considerable attention has been placed on the size of these stimulus packages, it is equally important to assess their composition to determine both the output growth and human development impact of these packages. In order to ensure their effectiveness, implementation of these stimulus packages must also be undertaken efficiently and without delay.

Effective social safety nets are particularly important to mitigate the effects of the crisis on the poor and low-income groups. These serve not only as welfare measures to protect human development but also countercyclical buffers in periods of macroeconomic downswings. Malaysia lacks a nationwide social protection system. There is no programme that offers minimum income protection against business cycle or other shocks to income. The non-existence of comprehensive social safety nets for the formal and informal sectors is a cause of concern as this may exacerbate economic and social instability in times of economic shocks. The Regional Synthesis Report and the Malaysian study analyses this in more detail, with recommendations on expanding and modifying established safety net

programmes based on home grown solutions for social protection and pro-poor expenditures.

Ladies and Gentlemen,

While we are facing both a global and national economic crisis, this can also be viewed as an opportunity. It is the decisions we make today as policy makers at national, regional and international levels that will determine how deep and long the present crisis will be and how resilient our future global, regional and national institutions will be to prevent and withstand future economic and financial crises.

If we use the crisis as an opportunity which recognizes that at their core, financial and monetary arrangements should serve the purposes of development rather than be an end in themselves, we will hold in our hands the keys that can open the doors to a future of sustainable and equitable growth. Economic development is not solely based on trade, finance or wealth creation - economic development is about the welfare of people, where growth is but a means to achieve continued improvements in the standards of living.

In this respect, there is a huge potential for Asia to play a leading role in the global economic recovery process. Asia's strong financial systems, which have remained relatively unaffected in this current crisis, provide a strong foundation for Asia to lead. As a way forward and taking account of the global imbalances that contributed to the current crisis, Asia will need to adopt a new development paradigm that leverages on regional strengths and addresses current weaknesses and future risks.

The current crisis had demonstrated the negative effects associated with Southeast Asia's reliance on trade and final demand from the developed economies. An important strategy going forward for Southeast Asia is to create new opportunities for diversion of trade to other markets in the region and to realize the full potential of greater trade ties within Asia. This should include increasing the value addition of intra-Asian trade to include finished and final products and not only intermediate inputs for the production of final goods.

Learning from the current crisis, Asia also needs to re-balance its export-led strategy with domestic demand led growth. Asia should leverage on the

favourable demographic structures, fast-rising income levels, broadening affluence and the growing middle class income which have come to characterize many of the region's economies. In addition, the relatively sound financial position of households in Asia, with high savings rates and relatively low debt levels, provides a strong foundation for rising consumption to be sustained.

Within the domestic Malaysian context, maintaining strong macroeconomic fundamentals are particularly important to enable sufficient flexibility and policy space to respond effectively to global volatility. Moving forward and if it is to achieve developed nation status, Malaysia must be able to mobilize its human resources more effectively and build its research and development (R&D) capabilities. This will involve significant investment in human development, technological innovation and most importantly, a concerted policy shift from low end, low value added activities to high end, high value added activities in all sectors.

Ladies and Gentlemen,

While we must embrace change if we want a better future for ourselves and our children, we must bear in mind that the recovery process must be undertaken in a responsible and effective manner. Asia needs to ensure that its future growth trajectory is equitable and fair and one through which the growing disparities between the urban and rural sectors are reduced. While economic expansion will remain the core of Asia's growth strategy moving forward, Asia must approach this based on a low-carbon growth model which involves less environmental destruction and avoids over-exploitation of natural resources.

Although the challenges confronting Asia appear daunting, the continent needs to come together and act concertedly for the betterment of the global population - more than half of which resides in Asia.

It is hoped that the recommendations made in both the Regional Synthesis Report and the Malaysian study will serve as inputs for policymakers as

they prioritise both short-term responses and longer-term economic restructuring measures to deal with crisis and its implications.

In closing, I would like to once again thank you for your presence today.