

THE EMIRATES INTERNATIONAL FORUM

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" OUT OF CRISIS: THE OPPORTUNITIES "

Firstly, I would like to thank the organisers for inviting me to speak at this Emirates International Forum. The organisers have found a very interesting title for me: "Out of Crisis: The Opportunities". I suppose the crisis referred to is the current financial turmoil in Southeast Asia.

2. Quite obviously the turmoil the nations of Southeast Asia face today is one of their greatest challenges since the Second World War. For that matter Northeast Asia is also facing the same crisis which extends beyond South Korea.

3. Before we talk about how to get out of the crisis it is necessary to try and understand what the crisis is all about. In very simple terms it is about the impoverishment of whole nations and indeed whole regions through what is now euphemistically called 'market forces'.

4. Since the demise of the command economy, the free market has become the economic creed of the world. Like all creeds and ideologies it must be practised unquestioningly. Heresy is not allowed even if the practice results in losses and misery as we are seeing today. In the free market, the drive and the policing is through what is described as 'market forces'. The force ensures that no one strays beyond what is thought proper in the conduct of Governments. If Governments are recalcitrant then market forces will take necessary actions to bring the recalcitrant back in line.

5. The way the market forces work is through enriching or impoverishing a country's economy. This can be done by moving either the stock markets or the exchange rates up or down. To avoid becoming impoverished and to be enriched it is necessary that countries and their leaders say and do things that will create confidence in the market. Unfortunately like beauty being in the eyes of the beholder, market confidence too lies in the perception of those who move and shake the market. What may be done or said to create confidence may in fact not result in confidence being created. It is necessary to tread very carefully in this minefield and to expect that a wrong step might bring about unpleasant results, usually in the form of currency devaluation. Leaders of countries must be especially careful when making speeches or talking to the press. A wrong word might prove fatal.

6. The impoverishment of a country is very painful for the people, even for the Government. Presently we are seeing millions of people being thrown out of work in Southeast Asia. The rest who are still working earn only a fraction of what they used to earn in terms of purchasing power. In terms of living condition this means no food or not enough food, no milk for the children, no medicine and obviously no fun and joy in life. The impoverished people take to the streets and loot the shops. They urge the Government to step down. They migrate to neighbouring countries and at times to countries which may not be so near. All

these must be accepted because that is how market forces operate.

7. Impoverished countries make poor markets. Their needs are there but they just don't have the money to buy. This must affect the economies of their trading partners eventually. A single country becoming poor will not do much damage to world trade. But when whole regions, and rich regions at that, become poor, the effect on world trade and the economies of the trading partners can be considerable.

8. How impoverished are the countries of Southeast Asia in the present crisis? It is not easy to trot out the numbers which economists can recognise. But in the case of Malaysia the Ringgit has been devalued from 2.5 to US\$1 to 4.0 to US \$1, i.e. by approximately 60 percent. Since Malaysia purchases or imports about US\$80 billion of goods and services a year, its capacity to purchase has obviously been reduced by about US\$48 billion. In addition the share market prices have been reduced to less than half. Since prior to the crisis market capitalisation was around US\$400 billion, the loss would be slightly more than US\$200 billion. It is worthwhile to note that other countries have their currency devalued by 400 percent and market capitalisation totally wiped out.

9. By any measure the loss incurred by the countries of Southeast Asia and Northeast Asia is massive. The crisis is serious. Submitting to the IMF is not sufficient. Even after abject submission the currency can still be further devalued. If a country becomes disillusioned because submission has brought no relief, and it tries to do something else, it would be condemned by the whole world and the currency will devalue again. This is the nature of the crisis that has hit the countries of Southeast Asia. The economic tigers of eight months ago have now become whimpering kittens.

10. So how do we create opportunities out of the misfortunes which have befallen the Southeast Asia countries? The answer lies in the experience of the past when these countries were almost all basket cases. They were commodity producers very dependent on the vagaries of the market place for their products. After they achieved independence they found that the terms of trade were steadily deteriorating. Their earnings from their products were fetching less and less of the manufactured goods they needed. Their growing population could not be gainfully employed because the production of commodities created very few jobs.

11. On the other hand they had no indigenous capacity to industrialise. And so they opened up their countries for foreign investment. And here they succeeded so well that their economic growth surpassed those of developed countries and they actually found that their people could not take up all the jobs that were created.

12. And so even though the crisis is far from over the countries of Southeast Asia are already embarked on programmes and strategies to attract foreign investments. And in this they have a lot going for them. The share prices of their companies are so low that they are below net assets value. True, many investors

foreign mainly, as locals have no money, are still waiting for the fall in share prices to bottom out. But there is some indication that the stock market is back on the growth path.

13. Better than this, the devaluation has actually made many businesses extra-profitable. The plantation sector is particularly attractive. While the products retain their international prices in foreign currency terms, in local currency the prices are actually higher. Profits have risen in some cases by 100 percent.

14. As has been pointed wages have not risen despite the devaluation. This is because there is a shortage of jobs now. Inflation has not been as high as the devaluation seems to justify. The increase in the profits of the plantation and commodity sectors is very meaningful in the domestic economy.

15. Eventually when the economy recovers the value of these plantation shares and the plantations and commodity-based industries must appreciate. Through foreign investment the recovery would be hastened. Clearly the share markets in the crisis-hit countries are very attractive. Foreign buyers snapping up the underpriced shares will push up their value, besides reaping windfall profits. In the process the stock market will recover and so will the economy.

16. But even more attractive is foreign investments in manufacturing. Due to the depreciation of the currencies the cost of investment and production in the countries affected by the crisis is very low indeed. Yet the products fetch the same prices in foreign currency when exported. Earnings by manufacturing companies are higher today and will become even higher if the investments are new. There are signs that investors are already taking advantage of this situation and are either expanding or putting up new facilities.

17. But the countries of Southeast Asia are not relying entirely on foreign investors. Although the money is tight and interest rates have gone up, higher earnings from exports in terms of local currency means that certain businesses remain good. Production capacities for a whole range of manufactured goods have been expanded as new markets are developed which can accept the now more competitively priced goods. Export earnings are already increasing and the balance of trade has been reversed and is giving these countries trade surpluses.

18. There can be no doubt that the indigenous as well as the foreign-owned exporting industries will expand and grow as a result of the crisis. Although the currency may appreciate and their cost of production may go up, their present investment cost will be lower especially in foreign currency terms. As usual during bad times more effort is made in finding new markets. Once these markets are opened and expanded they are not likely to be allowed to shrink in the future. Brands and products which these markets were not familiar with in the past will become known and popular now. The popularity will not be confined to these products alone. They will extend to the countries concerned. And this will certainly help the crisis-hit countries to recover and prosper again.

19. There was a time when Japanese products were synonymous with poor quality. After the Pacific War the Japanese made special efforts to get rid of this image. Over time they succeeded in gaining the recognition that their products, though still cheaper than European products, are actually of superior quality. Once this reputation was established all Japanese products came to be associated with quality and value for money. Japan' s rapid economic success in the sixties and seventies was due to this reputation. To a certain extent their reputation rubbed off on the other Asian countries. The perception now is that the products of other countries in the East are at least acceptable.

20. The countries of East Asia can use this opportunity to export more and to show that their quality is second to none. Of course price-wise they are competitive due to the devaluation of their currency. With the effort they are making they are bound to gain acceptance for the products and to increase their export earnings.

21. While increasing exports will earn them more foreign exchange, and they need the foreign exchange in order to buy capital goods and raw materials for the increase in the production of export items, these countries are also trying hard to reduce imports. This will not be difficult as all they need to do is to produce their needs at home.

22. These needs have resulted in a switch in the type of domestic business. Once again import substitution has become important. Food, especially processed food has always been a major import item. The need to reduce food import has actually resulted in changing eating habits. Wheat, sugar, beef etc will be consumed less than before. Instead rice, flour and locally available meats will be more in demand. Already every available land is being used for vegetable and fruit farming, for animal husbandry involving such exotic animals as ostrich, quails, geese, and ducks. Aqua-culture, always a lucrative industry in the Southeast Asian countries, will acquire added importance as the export demands augments domestic demands. New business opportunities are being created in this field.

23. Timber plantations and the cultivation of bamboo and rattan show much promise. Research has already resulted in new fast growing species being identified. Where before the forest were logged and left to regenerate itself, it will now be replanted seriously. So will all land which had been left idle or had been earmarked for certain industries and housing estates which can no longer be proceeded with because of the reduced demands. A whole lot of new agro-based industries will provide opportunities for investments which will fuel the post-crisis economy.

24. Because of the need to reduce imports, a number of industries which were not attractive before have been reconsidered. The industrial character of the countries of Southeast Asia will change as new technologies, research and development are applied to old industries.

25. The countries of East Asia have always shown that familiarity breeds greater

skill and efficiency. After all they had always succeeded in taking assets from other countries and turning them into much more valuable products. Malaysia took the rubber tree, the oil palm and the cocoa plants from South America and Africa and created unbelievably profitable industries. Research and development have converted these foreign plants into little factories yielding more rubber latex, edible oil and cocoa than they were capable of in their native land.

26. With the crisis research and development have once again been given a boost. The Government and the private sectors are busy doing research in making the local substitutes every bit as good if not better than the import they replaced. If our performance in the past is anything to go by, there is going to be a lot of enhanced value for the new crops, animal husbandry and renewable sources of raw material which we will be capable of producing in the future.

27. But the most important opportunity presented by the crisis is in the improvement to the financial management of the country. We have since found that both in the public and private sectors there was much waste. Too many people were employed in doing too few things. There was a lax attitude towards the spending of money.

28. The crisis has prompted all of us to look at our costs. Every item of expenditure is now scrutinised closely and where there is no absolute necessity, severe cut backs will be made. The financial base of the countries will be much strengthened as a result of the crisis.

29. For decades the Government and the peoples of East Asia have been sending their young people to study abroad, particularly in the developed western countries. The drain on the national coffers was very big. Malaysia has 50,000 students studying abroad at any one time. The cost of foreign education has been going up every year. But because there has always been high regard for education, the peoples of East Asia have never looked at the cost. They felt that good education was worth the money spent.

30. Today they cannot. But because they still regard education as of prime importance they have to find alternatives which cost less. Education has now become an important business as demands for local institutions of learning mount. Students are being brought back home to new universities and educational institutions, largely private, which are spreading throughout East Asia. The quality of education has always been high before and are being maintained. Apart from students returning before their studies are completed, new students are also going to be educated at home.

31. It is believed that the financially strapped countries of Southeast Asia will not only save money by bringing back their students but they will also become new centres of excellence which can cater for foreign students.

32. One of the decisions of the Asia Europe Meeting in Bangkok last year was to have European students study in Asian universities. For centuries Asian students have been going to European countries for their higher education. In the process

they not only acquired knowledge but also an appreciation of European culture. It enabled them to handle relations with Europe and Europeans when later on they do business or they carry out their Government' s business involving Europe and the Europeans.

33. Europeans on the other hand never having lived in Asian countries as students, find themselves quite unable to handle relations with Asian countries and people. By studying in Asian universities the future business and Government leaders of Europe would be better able to understand and handle their relationship with Asia and the Asians.

34. With the expansion of educational institutions in Southeast Asia brought about by the present crisis, there will be ample room for a lot of European students to study in Asia. The educational field therefore looks very promising. It is an area that can contribute much towards the post-crisis growth of the East Asian countries. The potential is really enormous. If we only think of the billions of dollars now being spent in Europe and elsewhere for education coming back to Southeast Asia, then the future economic prosperity of Southeast Asia seems assured. Of course the change would be almost irreversible. After all if the majority of European students never left their country to get an education, why should Southeast Asians leave their country for the same.

35. Trade between the countries of East Asia has mainly been transacted in U.S. dollars. Seventy percent of Malaysia' s trade is in U.S. dollars although only 18 percent of Malaysia' s trade is with the U.S. The devaluation of the Southeast Asian currencies is mainly against the currencies of the developed world. There is practically no change in the exchange rates between the countries of Southeast Asia. For these countries the cost of imports from each other has not changed much.

36. Because foreign exchange is not easy to come by and are intended for capital goods, trade between the countries affected by the crisis must now rely on local currencies. Instead of paying for every transaction it is possible for the total exports and imports of the trading partners to be computed and payment made only on the difference. This way not much money will change hands. The balance to be paid to the country with more exports than imports will be very small and can be settled in the currency of that country.

37. The magic of the computers will enable daily settlements to be made through a clearing house. It is expected that the trade between the countries of Southeast Asia will grow very considerably. Of course it may be at the expense of other trading partners. But the growth of trade between these countries will be only natural considering that they cannot buy their needs from others as much as before.

38. Southeast Asia will overcome the problems of the devaluation of the currencies through taking up and exploiting new opportunities surfacing as a result of devaluation and impoverishment. It will do so partly by insulating the domestic economy, by reducing the need for foreign exchange, by strengthening

internal resilience. In the process new directions will be taken and new practices devised. Southeast Asia will probably not return to the old pattern of economic growth based largely on foreign investments. They will continue to want such investments but they will depend more on their domestic capacities and intrinsic strength.

39. For most of us the recovery will take a long time. This is acceptable. After all when we started we were basket cases. We had pulled ourselves up by our own bootstraps. Now that we know that the route we took infringed on the interest of others we will avoid that route.

40. Southeast Asia has a population of half a billion in a region which has a total population of more than two billion. These are very hard working people used to all kinds of hardship and challenges. Although we may not say it, I still believe Asian values will pull us through. We will be very patient. After all it took many centuries for us to gain our independence. We will overcome. And in the process we are going to spawn such opportunities for ourselves and for others as have never been seen before.

41. When we do come back we will contribute to a better world, a world in which people will not be impoverished in order to enrich a few people. We in Malaysia believe in smart partnerships, a partnership in which the partners all gain. Despite what has happened to us we still believe in sharing fully with our partners. And the opportunities that we have created and will create as a result of the crisis will be shared with everyone.