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Southeast Asia After the Economic Crisis - Future Challenges and Prospects

Firstly, I would like to say how delighted I am to be here today in Hannover to address this gathering of prominent members of the German business community. I have been given the honour to speak on the future challenges and prospects of Southeast Asia after the economic crisis. The focus on the future is certainly appropriate. Whatever may have happened to us in the past, whatever may assail us now, the future is really where all of us will be spending the rest of our lives. But to foresee the future, to plan for the future, we need to look back and learn from the past and understand and manage our present.

2. During the period the peoples of Southeast Asia were subservient to their colonial masters, their role was to produce raw materials for export to the metropolitan countries and to be a captive market for the latter's industrial goods. They were not allowed to industrialise and to compete with their colonisers. They were also not allowed to trade with the neighbouring colonies belonging to different powers.

3. Some forty years ago the countries of Southeast Asia gained independence. They soon realised that the independence was nominal. They were all still dependent on foreigners, mainly European for all their manufactured goods. They continued to produce the raw materials that they used to produce under colonial rule. However the terms of trade deteriorated. They had to export more and more raw materials in order to buy less and less of the manufactured goods they needed.

4. Naturally they became poorer, especially as their population was multiplying rapidly.

5. It looked like they were to continue to be client states, the receivers of aid forever. Mostly their Governments were incompetent and their administration chaotic.

6. Then some thirty years ago the independent countries of Southeast Asia began to change. Whatever may be the type of Government and administration they formulated, they all seemed to want to develop their countries. Instead of political ideologies and narrow nationalism, which had characterised the early years of their independence, they opted instead for development and the improvement of the life of their people.

7. They accepted elements of the market economy and laid the welcome mats for foreign investors. They strove to improve their administration, to introduce new economic policies, to provide incentives for foreign investment etc.

8. Slowly at first, but speeding up with the passage of time, these poor ex-colonies began to develop. Jobs were created, new skills introduced and poverty gradually reduced. Lacking management skills and technical know-how they

accepted foreign industrial investments. Starting with simple processes they graduated to more sophisticated technologies. Soon they were producing the latest manufactured products for the world markets. And their products competed successfully against the same products from the developed countries.

9. By the late eighties and early nineties they had become a credible competitor in the world market. They had emerged as the Tiger economies. They were not yet classified as newly-industrialising countries but it was clear that they were heading that way. Indeed they announced their target to become developed countries. There was even wild talk that together with the faster growing Northeast Asian countries they were going to dominate the world, they were going to make the 21st century the Asian Century. Carelessly and arrogantly they talked of Asian values. They claimed that Asian values were superior to Western values, and that these values had contributed towards the success of their economies.

10. The Governments of these countries were far from being the ideal as conceived by the West. The most successful of them had long serving leaders whose influence and authority was palpable. They tended to work closely with the business leaders in their countries. This resulted in huge corporations emerging which were comparable with the older giant business establishments of the developed world. They went into every field of trade and industry. And they all seemed to succeed rather remarkably.

11. It looked like these former poverty-stricken ex- colonies were going to gallop ahead and achieve their ambition to become developed countries and to realise the Asian century. Then suddenly they began to stumble and to totter, to shrink visibly and to collapse. Within months the economic wealth they had created began to disappear. Their banks and industries folded up, their workers thrown out of jobs by the millions, while those who still worked earned only a fraction of their old purchasing capacity.

12. Their Governments, the very same Governments which had engineered their so-called economic miracle, were suddenly found to be incompetent, corrupt and given to crony-capitalism. The policies and strategies they had developed which had apparently contributed towards their rapid growth and general wealth, were suddenly found to be the cause of their downfall. The foreign investors lost confidence in their economy and began to pull out taking their capital and their profits with them.

13. It is strange that the same Governments by the same leaders with the same strategies and practices which had for thirty years created the so-called economic miracles are now causing economic collapse, massive unemployment and poverty, and social and political unrest. Can it be that something which worked in the 1980's and early nineties should fail because it is 1997? Nothing else had changed except the time.

14. One would be able to understand if in July 1997 the Government changed and new policies were introduced. One would understand if suddenly a number

of madmen took over the leadership of these Southeast Asian countries. We have seen radical changes take place when the leadership of Governments change as for example when Hitler became the Chancellor of Germany.

15. But in Southeast Asia there was no change of Governments or leaders or policies or the system or ideology either gradually or suddenly. Yet within less than a month the tigers of Southeast Asia were reduced to whimpering bedraggled kittens ingloriously begging for help. Gone were the pride and the ambition about becoming developed, about Asian domination and the Asian century.

16. Something happened, something must have happened. One day a great historian will study this mystery and will write on the Rise and Fall of the Great Asian Tigers.

17. I am sure the historian will have very important lessons for us based on hindsight. But unfortunately we cannot wait for this erudite work. We have to work to recover now. People, millions of them are already suffering from food shortages, from lack of medicine, from uncertainties about what is going to happen to them. We need action now.

18. Having reviewed the past, and having noted the state of the present, we have now to look at the future, to try to create a future that will be better than the present of course, but somehow different if we are not going to have this kind of crisis repeatedly.

19. There are several courses open to us. Firstly we can follow unquestioningly the advice given us to integrate fully into the globalised world economy. For quite some years since independence we had tended to protect our economy. Some of us believed that we should keep our markets to ourselves. This we did through tariff and non-tariff barriers.

20. By the simple imposition of differential tariffs on imported and locally produced goods we had been able to persuade foreign investors to locate their production facilities in our country if they wish to have access to our domestic markets. Additionally as an incentive we gave tax-free status for foreign manufacturers producing for export.

21. The strategy enabled us to industrialise, to increase exports and the revenue of the Government. So successful was this strategy that even a sophisticated automotive industry could be nurtured. Because of the high duty on imported cars, and lower duties on locally assembled cars, automotive assembly plants became viable. Through the same mechanism the so-called national cars became feasible and profitable.

22. Perhaps the strategy can be interpreted as subsidising both foreign and local companies. But developed countries too offer almost similar subsidies. It is not unusual for Governments or municipalities in developed countries to offer land free or at nominal cost and even to provide a substantial part of the capital to foreign companies investing in job-creating enterprises. What the developing

countries of Southeast Asia were doing was not so unusual.

23. When socialism was popular Governments believed that the state should go into business and take all the profits instead of just the corporate tax. After years of state ownerships of the means of production it was finally admitted that they were inefficient, wasteful and unprofitable. Private ownership and management was considered to be the answer to the failure of state ownership.

24. And so privatisation became popular. Successful private companies were allowed to bid for the takeover of Government companies and public utilities and to go into major industries. But the Governments could not just wash their hands from their responsibilities to the public.

25. Although the utilities now belong to the private sector, Government continues to collect taxes of all kinds. The Government is therefore obliged to continue to support the people through some form of direct or indirect subsidy. The objective is to reduce the cost to the users and to render the privatised entities viable.

26. Whether there are two or two thousand bidders for the privatisation of any entity there can only be one winner. No matter who becomes the winner he is immediately labelled as a crony. Hence "crony capitalism" was coined and labelled as an abuse of Government authority.

27. The fact that many Governments of developed countries promote certain companies by diplomatically or otherwise influencing the decisions on contracts and supplies by the Governments of developing countries is not regarded as "crony-capitalism". In the purchase of arms for example Governments of the arms supplier often provide loans to countries in order to influence their decisions and enable them to buy what they really cannot afford. But these are for some reason not considered crony-capitalism.

28. Whatever may be the merits and the results of the strategies and policies followed by the countries of Southeast Asia, the fact is that they are not going to be allowed to continue with them. They are now required to accept globalisation, liberalisation and deregulation.

29. We in Southeast Asia are ready to open up our countries to the free flow of capital across borders. We agree that there should be little or no discrimination against foreign companies and goods through differential duties. We also agree, in the interest of greater efficiency and the reduction of prices for our people, that 100 percent foreign-owned banks and companies should be allowed free access to our countries.

30. It is recognised that all this would contribute towards the rapid development of our countries. Keeping the domestic markets closed will only result in the people being burdened with high-cost poor quality goods and services.

31. However the free access of tax-free foreign products is likely to reduce investment in our countries. Our workers will not be able to get employment especially if the levelling of the playing field involves levelling the wages of

workers worldwide. Government revenues are likely to decrease, economic growth stunted and eradication of poverty slowed.

32. In order for a borderless unregulated world to be meaningful our jobless workers must be allowed to move across borders freely. Their skills and their willingness to work hard are as valuable as the management and technological skill of the people from the developed countries. They can contribute to lowering costs and increasing productivity in the developed countries.

33. We are of course already seeing this migration of workers from the developing to the developed world. That they have contributed towards the economies of their new domiciles cannot be denied. In fact if migrant workers are all repatriated the economy of many developed countries is likely to collapse.

34. Malaysia has a wide experience of playing host to immigrants. In fact almost half of our population is of immigrant origin. They have contributed greatly to our economy. But we cannot afford to have too many migrants in our country. To reduce unwanted immigration we invest and create jobs in the countries where the workforce is not fully engaged. But today because of currency devaluation there is widespread poverty in many Asian countries. We hope that in a borderless globalised world these workers can cross borders freely to look for work.

35. For the countries of Southeast Asia with a population of half-a-billion, one solution to their present problem could be greater deregulation, liberalisation and globalisation. It should result in higher standards of living for the reduced population after the out-migration of their workforce. The foreign investors on the other hand should be allowed to settle in their countries, thus making their skills and capital indigenous.

36. Alternatively Asia can become more Asian. To resolve the problems of currency devaluation and shortage of dollars they may have to devise a new form of barter trading. The members of the Association of Southeast Asian Nations have already decided to trade with each other in their own currencies.

37. Obviously there will be difficulties as their currencies are very volatile. But it has been noticed that they devalue by roughly the same rate. In other words the exchange rates between them are roughly the same. This reduces the risks of exchange rate fluctuation between them.

38. It is entirely possible for the trade between two countries to be settled without having to pay for every transaction. Thus at the end of the day the imports and exports between two countries can be totalled up and only the balance is paid to the country with a higher export. The rest of the payment is made in local currency between the exporters and importers of each country. This will eliminate the need for large holdings of the currencies of the trading partners. It will certainly do away with the need to buy the currency of a third country in order to settle the payment.

39. Effectively this is bartering. The arrangement can be extended into

multilateral trading in which a payment is made after all the balances in the trade have been accounted for.

40. With computers a modern clearing house can be set up which can actually follow the trade and make the necessary payment on the same day. This will reduce the impact of exchange rate fluctuations.

41. The system can actually be extended beyond the Southeast Asian nations. Already talks are being held for trade with the North East Asian countries in each other's currencies. No third currency will be needed. The value of the goods will be determined through a willing buyer and willing seller mechanism. Thus if the currency of one partner appreciates then the other partner will have to use more of its own currency in order to buy. But at the same time it can be assured that when it is selling in its own currency it will get more.

42. When the imports and exports of the two countries are tallied, it will not matter whether these currencies have appreciated or depreciated. The figures may change but the value of the goods or services will remain. If subsequently the exchange rates change again, the value of the goods will still not change. Besides, the risks of currency fluctuations are shared by both parties.

43. It is wrongly assumed that devaluation of a currency results in cheaper goods for export. This does not always happen because everything that is exported has some imported contents is now more costly. Besides a country with a devalued currency must experience inflation for a number of different reasons. Then buyers from other countries would demand that prices be reduced because they assumed the cost of production had gone down due to devaluation. In the end the country with the devalued currency gains nothing at all.

44. In the present case because all the countries of Southeast Asia have had their currencies devalued, none has gained any competitive advantage. Their exports will not grow. Their earnings may even shrink. Devaluation is far from being an economic blessing.

45. There is therefore some merit in Asian countries promoting intra-Asian trade in their own currencies.

46. There is a third route that the countries of Southeast Asia can take and that is to go back to the system that had brought prosperity to them. Adjustment will have to be made of course. But certain protective barriers can be retained. The likelihood is that strong pressures will be brought to bear upon them. Those who have accepted IMF conditions will not be able to do this.

47. The banking sector is a good example. The indigenous banks of these countries are still too small. If foreign giants are allowed in unrestricted, the local banks would not be able to compete. Foreign banks can afford to lose in the country, local banks cannot.

48. But if the local banks are given time to merge, to acquire expertise, they can become strong enough to withstand the onslaught of the giant foreign banks. If

at that time the foreign banks are allowed in, the local banks may be able to survive.

49. This third approach to the management of the economy of the Southeast Asian countries will be sufficient to cater to a mild degree of nationalism, a desire to preserve national identity and pride. Perhaps in a globalised world this kind of nationalism is anachronistic. It is perhaps better if we all forget our race or nationality in favour of giving our people unlimited access to the best and the cheapest of goods and services. There is no doubt that if the giant corporations from the most developed and advanced countries are allowed free access, the people in the developing countries will not only get the best goods and services but they would be freed from their corrupt governments. But people are perverse. They might prefer their own products and services inefficient and inferior though these may be.

50. Maybe the third choice is not compatible with a globalised deregulated world. But it may be less disruptive and may reduce migration and the problems these can cause the developed world. We should therefore not dismiss this alternative.

51. Whatever may be their choice, the road back for the Southeast Asian nations will be long and painful. Damage has been done, perhaps irreparable damage. In the name of justice and fairness Southeast Asia should at least be allowed to choose its own way back.

52. The recent slight strengthening of their currencies and share prices indicate that they have the capacity to bring back confidence. Provided that there is some stability in terms of exchange rates they can make their choice of the route for a come-back. I am sure that when they do they will recover and contribute to the well-being of the world.

53. In the meantime they need help in the form of foreign long term investments. With their currency so cheap it is the time to invest. The cost of construction is low in terms of foreign currency. So are the companies and properties which are in trouble and are up for sale. There may still be some restrictions but the Southeast Asians have learnt their lessons. They now know what is good for them and knowing this they will be able to face the challenges of the future, whatever they may be.