

The 6th Nikkei Shimbun International Conference On 'The Future Of Asia'

Tokyo, Japan 9 June 2000

I would like to thank Nikkei Shimbun for inviting me to speak once again at its International Conference, this time on "The Future of Asia". Looking into the future has become almost a science and many experts profess to know what will happen in the immediate, near and distant future. I am afraid I am not one of these experts but I like to look at history, so I may avoid the mistakes of the past and thus ensure a reasonably good future for my country with less of the mistakes of the past. But unfortunately in the history of Mankind learning from past mistakes is not common. And so we keep on making the same mistakes and paying the price.

2. Human history is full of so-called solutions to the problems of human society. Each time a solution was found, the efficacy and infallibility of the solution was accepted as being beyond doubt. Those who espouse the solution will permit no criticism or opposition. They become so fanatical that they would figuratively and sometimes literally burn the heretics at the stakes.

3. The Feudal system, Republicanism, Capitalism, Socialism and Communism are among the ideas invented by men to deal with the inequities and injustices in his society. When first introduced each was regarded as perfect by those who espouse them. They were all practised as articles of faith and anything done in their name were accepted unquestioningly. They were embellished, interpreted and reinterpreted until their originators could not recognise them anymore. But as long as the name remains, questioning or condemning them would make one a heretic.

4. But over the years their imperfections would show and result in negating the very objectives they were supposed to achieve. Unfortunately at this stage it is not the original objectives which count. The important thing is faith in the solution. Even if it destroys the society whose ills it was supposed to cure, it does not matter. It does not matter because the solution is correct.

5. And so we see how Feudalism was allowed to flourish long after kings became tyrants and oppressed their people, destroying their kingdoms. The same thing happened with Republicanism, with Socialism, Communism and in time with Democracy.

6. The same thing will happen to all human ideas, concepts and ideals. Over time they will all become quasi- religious, fanatically believed in until they bring about new problems which are often worse than the problems they were supposed to solve.

7. We know the history of all these ideas, ideologies and systems and we ourselves have experienced the problems they create. But we have learnt nothing. We are as convinced as ever that the ideas and solution and ideologies that we contrive today are perfect and will make our society and the whole world

better and superior than the societies of the past. And so we become fanatical about them and we will apply them even when the results are worse than the state of affairs ante. We accept the damage because they were caused by the right solutions.

8. Today we are into the floating rate, into the free unregulated market, into globalisation and of course into democracy and freedom. We believe in them absolutely. No one may question them, certainly not condemn and reject them.

9. When Malaysia decided to fix the exchange rate between our Ringgit and the U.S. Dollar we were roundly condemned as stupid people who do not understand finance. We were told we will soon fall flat on our faces and have it rubbed in the mud as well. Our economy would collapse. We would be begging for help from the IMF and the whole financially civilised world.

10. As you know none of these things happened. We are doing very well indeed. I will not trot out the usual figures to prove. But believe me we have turned around and we are much better off than those who religiously believe in the floating rate as the only way to ensure sound finances for a country.

11. Why did we go against the current financial orthodoxy? Well, when the great minds gathered at Bretton Woods, they concluded that the best thing for a world which had had its economy shot to pieces by World War II was to have a fixed exchange rate. The U.S. Dollar was to be worth 0.35 oz of gold and the rest of the world's currencies would be pegged to this 0.35 oz U.S. Dollar.

12. We all know that for two decades the world experienced the longest sustained high economic growth on a fixed exchange rate. And the vanquished, Japan and Germany, grew the fastest of all.

13. Japan would not have recovered at all despite its hard working, dedicated and highly skilled people and its strategy of high volume, and low margins in order to gain market share, if the Yen had fluctuated and had been artificially revalued as it is now. We in Malaysia and in other developing countries would not have enjoyed cheap high quality goods and higher living standards if Japan, because of Yen uncertainties, had not succeeded with its market share strategy. In fact we would not have been enriched by Japanese and other foreign direct investments had the Japanese failed due to the fluctuating and strengthening of the Yen.

14. Left to themselves the West, i.e. Europe and America would have gone for high profit margins which their people could afford, sending a few left overs to the developing countries which could ill afford the high prices. But forced to compete with the Japanese they moved some of the production to low-wage developing countries. This was the real reason for FDI. And we became industrialised and relatively better off. Later of course we acquired skills and capacity and we grew into the Newly Industrialising Countries, a term coined by the West in order to single us out for special unfavourable treatment.

15. But all these were made possible by the fixed exchange rate of the Bretton

Woods regime. The World's trade grew by leaps and bounds and recovery from the disaster of World War II was more than complete. Indeed the Bretton Woods fixed exchange rate system created a world more prosperous than ever before. Only those who stayed out of the system, namely the Eastern Bloc failed to prosper.

16. The floating exchange rate is not a creature of Bretton Woods. It certainly was not the result of serious study, debate and international agreement as was the fixed rate of Bretton Woods. The floating rate is the result of countries, powerful countries, renegeing on their undertakings in the Bretton Woods agreement.

17. The U.S. was involved in an intractable and costly war and abandoned the balanced budget. It was importing too much and the dollar was flooding Europe. It could no longer guarantee redeeming the dollar with 1/35 oz of gold. Speculators moved in and sold U.S. Dollar at below the guaranteed value. A market in Eurodollar was created.

18. In the end the U.S. accepted the de facto devaluation and went off the gold standard. It seems that the right place to fix the value of a currency is the market. The market would know just how much any currency is worth. What people seem to forget is that the market has never been perfect. Demands and supplies can be manipulated. And certainly with futures trading and short-selling true values are less important to the market than fluctuating values. Static exchange rates may be good for business but are not profitable to currency speculators.

19. Whatever may be the arrangement and reasons for the floating rates it was not good for the world's economy. The cost of business went up because of the need to hedge. Even then considerable losses could be sustained. Revaluation and devaluation affect the economic performance of countries. If the oil price goes up, then devalue the dollar. The oil producers then increase their price again and poor countries with poor people suffered because they could not revalue their currencies against the U.S. Dollar.

20. If there is a trade imbalance then devalue your currency or better still gang up and revalue the currency of the country with the surplus in trade. In the case of Japan the revaluation did not really reduce the Japanese trade surplus with the West but it hurts the poor people in the poor countries who could no longer afford the cheap high quality Japanese goods.

21. Malaysia borrowed a lot of Yen. It was worth just one Malaysian sen when we borrowed. The Plaza Accord pushed up the Yen to 2.5 Malaysian sen. Suddenly to pay our Yen loans we had to find 250 per cent more Malaysian Ringgit. Through no fault of ours we became a bigger debtor than we had planned to be.

22. But who cares about us, about poor countries and poor people. They are not fit to sit at the same table with the rich -- the G-7. If solving the trade problems of the G-7 results in the poor becoming poorer it is just too bad. Marie Antoinette

would have said let them eat cake if they have no bread. If they also have no cake that is really their fault; they are corrupt, incompetent etc.etc.

23. You must forgive Malaysians if we don' t think much of the floating exchange rate, if we believe that fixed exchange rates are better. History has demonstrated how the fixed exchange rates of the Bretton Woods regime had enabled the world to recover from the trauma of World War II. On the other hand the floating exchange rate had stopped the two decades of post-war growth. Malaysia too benefited from the fixed exchange rate and as you know we suffered grievously from the manipulation of the rogue currency traders of the floating rate regime.

24. We were never consulted about the floating, we entered into no international agreement to always stick to floating. Others renege on their undertakings. Why can' t we?

25. Malaysia is interested in results not systems. No matter how good a system is, if it delivers a bad result we are not going to stick to it. Call us heretics if you like. We are willing to be called stupid ignorami who cannot understand herd instincts. But for us if the result is bad then we must assume the system is bad and we will throw it out. 26. And so our exchange rate control and the regulation of short-term capital flows were instituted. And as I said Malaysia is doing nicely, thank you.

27. But the point I would like to make is that we must learn from the lessons of history and we must avoid the mistakes of the past. What is the lesson of the past? To the point of being boring may I repeat that all the systems devised by Man in order to create a better society are imperfect. And they become more imperfect because clever people keep on tempering with them, embellishing them and making them sacred so that you may not question them even when they fail to deliver.

28. We must learn not to be too fanatical about economic theories as much as we should not be fanatical about interpretations of religion. We should be prepared to examine them and their performance. And certainly if the results are not what were promised we should be ready to jettison them. We cannot wait too long. Look what happened to the Communist countries. They saw the bad results early but since the theory was good, uphold the theory and forget the results. By the time they came to their senses the damage was practically irreparable.

29. We must learn not to be fanatical especially now, now that the Information Age has descended on us. We talk now of globalisation, the borderless world. We talk of deregulation, liberalisation and transparency. We talk of human rights and of democracy. These are the great ideas whose time have come. We must all accept them. The great democrats who believe in freedom and human rights tell us that if we don' t accept them then we will face sanction. Our people will be starved to death. So don' t play with these democrats. Accept democracy and human rights or you will know how we democrats will take away your rights and your freedom of self determination by force. Somehow I think there is something not quite logical with this way of propagating democracy and human rights. But

that is not what I want to talk about, what I think will shape the future of Asia and the world.

30. I am concerned that we should not make the mistake of being fanatics about any of the ideas and theories that I have mentioned. We have a need to examine them, to think through, to keep focused on the purpose and objectives and not on the means.

31. Globalisation, a world without borders, a seamless world -- these are great ideas. But already we have seen how much damage they can do to our currencies. The free flow of capital and goods may make things cheaper. Competition in a free market would increase efficiency. But let us see what is happening and what may follow.

32. The mega corporations and mega banks which are getting ever bigger through repeated mergers will move into every country as soon as the WTO force open the markets. The small and the inefficient in these countries will be wiped out. The need for manpower, particularly unskilled manpower will disappear.

33. Maybe it will be good for everyone. Remember the fear of the weaving machines? They created more jobs and greater wealth rather than the other way round. That is one of the lessons of history. But the Banana Republics are also part of the lessons of history.

34. As we all know the great plantation owners in the Banana Republics practically own the countries they invest in. They determine the politics of the country. In other words when a foreign company is richer than the Government of the country they invest in, the country becomes a fief of the company, existing only to enrich the company.

35. When the mega corporations, already more wealthy and more influential than the developing countries move in to take over the economy of these countries, will they not control also the political Governance of these countries? Can we consider these countries as being independent anymore? What if the powerful countries where these corporations are based make use of the power of these corporations to hegemonise, to colonialise by another name. The people and the resources will then belong to the foreigners. The last time the foreigners wield this kind of power they exploited the people and the countries. Will they not do it once again? 36. Probably they will give us a better life. But what will happen to our independence, to our pride and honour. Can we be sure that they will not translate borderlessness into a licence to move labour around the world the way they brought Chinese and Indians into Malaysia, and Fiji and the African countries and the West Indies. It would serve economic exploitation to have these migrants but what would happen to the natives. Malaysia has been able to handle this multiracial problems but many have not.

37. Are these things important to Asia' s future? Of course they are. The demographics of Asia will be affected. There will be instability. Economic growth

will be affected. The relation between Asian nations will be affected. We will be divided and effectively we will be ruled by others. We will be surrogates and testing grounds for all kinds of things. New theories will be tested in Asia, and God-forbid, new weapons too. The West is still inventing and developing new and more efficient ways of killing people. That has to be financed. Create the fear of war. Can China and Japan avoid a future war between them? To have peace prepare for war. The military industrial complexes in the West can provide you with the weapons you need. And also the ever newer weapons which can counter the weapons your enemies have or are likely to have.

38. The situation in Asia will be tense as countries, armed to the teeth glared at each other. That can be the Asia of the future if Asian countries in all good faith agree to open up and allow the mega-mega corporations to take over everything.

39. But this will not be the picture if Asians at least are able to learn from history and to look at all the new ideas with a degree of suspicion, to accept them only after careful study and debate, to test them and to modify or reject them if the results are not as promised. In Western countries if the goods are not as promised you can sue for millions of dollars. But we cannot sue anyone if the theories, policies and ideologies which are sold to us by the Western ideologues turn sour and destroy our lives.

40. So look at the gift horse in the teeth. Reject them if they are even slightly defective. Don' t be afraid to send them back and ask for compensation if you find them not up to standard or defective.

41. We Asians should begin with the International Financial Regime. If they don' t accept our suggestions or reform then throw the whole thing back to them. Since they have ganged up on us, we should at least form our own forum, the East Asian Economic Caucus (EAEC), so we may at least discuss with each other and find out what kind of a deal we are getting and how to protect ourselves.

42. Asia' s future depends on Asians. We can make it great. We can even make the 21st Century the Asian Century - although I will not recommend it. We should make this century the century of the world, the century of world-wide prosperity. Asia can even contribute and be the engine of growth, pulling along with it Africa, Latin America and the former Eastern Bloc countries.

43. But Asia must assert itself. It must not just follow. It must work together with Europe and America. It must give voice to its views. It must demand respect even as it respects others. Asia is old in experience and it has shown that it can master everything that is modern.

44. Provided that Asia is prepared to do this, the future of Asia will be bright. There will be great countries in Asia again. Asian inventiveness, Asian industries, Asian management skills and Asian governance will provide the models for the world. We will not dominate it but we certainly will not be bullied. Indeed Asia can be an equal partner with the other groupings in the world, the European Union and NAFTA. This is a possible future scenario for Asia but it is not going to be if

we just passively wait for it to happen.