

Asia Economic Summit

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FUTURE OF ASIA IN THE 21ST CENTURY : REDEFINING AN EAST ASIA ECONOMIC GROUPING

I would like to thank the organiser for this invitation to speak on a subject of such significance to Asia, in particular East Asia in the future.

2. To predict the future we must study the past, at least the recent past and of course the present situation. Obviously the past and present will influence the shape of things to come, the future.

3. The end of the Pacific War saw almost all the countries of Asia and East Asia in particular in a moribund state. China, Japan and Korea suffered most from the Pacific War. The countries of Southeast Asia reverted to colonial rule, having largely changed hands from western colonial powers to Japanese colonial rule and then back to the Western power. Under colonial rule these countries were not free to develop and the colonial powers confined these countries to the production of primary commodities to be exported to their countries, converted to manufactured products and re-exported to them and to other countries. The war destroyed even these commodity-producing economies.

4. Japan was devastated. Its industrial capacity was destroyed and its trade negligible. China had to fight a civil war while Korea was torn into two by the Allied forces and the Communists.

5. Such was the confidence of the victors that the defeated eastern countries would never recover that a condition imposed on Japan was that it must not spend more than one percent of its G.D.P. on its military forces. The G.D.P. of Japan in 1945 was minute. But today one percent of Japan's G.D.P. is higher than the budget for arms of most of the developed countries.

6. We know today of how Japan rebuilt itself in record time to become the second most powerful economy in the world after the U.S. South Korea then followed suit, appearing almost from nowhere to become a great manufacturing and trading nation. The hermit country is hermit no more.

7. The Southeast Asian countries adopted their own way towards growth and development. Bereft of capital, know-how,

management and trading expertise, they invited foreign investors to help change their agricultural economy into a manufacturing and trading economy. Making use of their low labour cost and the skill of their workers they helped in making largely Western enterprises to become competitive again, to challenge the Japanese juggernaut. Not to be outdone, the Japanese, the Korea and even the Taiwanese invested in the Southeast Asian countries. And so these mainly ex-colonial territories seemed set to give the Europeans and the Americans a run for their money.

8. Such was the progress of the East Asian nations that many industries of Europe and America had to close down. Steel, shipbuilding, automotive industry, etc. of the West folded up unable to compete with the high quality low priced products of East Asia.

9. An unprecedented prosperity was experienced by nearly all the East Asian countries. Indeed it seemed a matter of time before East Asia would dominate the economy of the world.

10. China remained insular at first and refused to join in the Asian industrialisation programme. But Deng Xiaoping dragged the country into the world of competitive trade and within a few years China became an industrial giant.

11. There was talk that the 21st century was going to be the century of Asia. There seems no stopping Asia. The millions of hard working skillful and highly intelligent work force was set to churn out all the manufactured goods of the world at a fraction of the cost.

12. Japan had set the example. Whereas the West believed in low volume and high margin of profits, Japan opted for high volume, low margins and dominant market share. As soon as the Japanese mastered the art of making quality products their market share grew until there was practically no room for the products of the West.

13. When the Koreans, the Chinese and even the Southeast Asians also adopted the Japanese strategy, the signs on the walls for Western countries became ominous. Perhaps there was no concerted action to stop the Eastern juggernauts. But whether there is or not, the fact remains that certain actions were taken to curb the Eastern challenge.

14. When South Korea looked like becoming a second Japan, a new term was coined to describe its economic performance. It was called a Newly Industrialising Country. It was a flattering acknowledgement of its success but Korea soon learnt that as a NIC, it must face restriction to its trade.

It was accused of all kinds of malpractices and it was subjected to countervailing acts.

15. Japan had been accused of public/private sector collaboration, termed Japan Incorporated by its western competitors. This was regarded as unfair. But it was too late to act against Japan. Now Korea adopted nearly the same approach. Through strong support for certain corporations Korea was able to build up huge conglomerates known as 'chaebols', the Korean equivalent of the Japanese Zaibatsu. These corporations were hugely successful and their products were able to compete in the international markets.

16. A press campaign against the chaebols was mounted and certain countries openly condemned the 'chaebols' as cronyism. The nature of the Korean political system came under attack, as were its strategies for development. Political and labour unrest were encouraged.

17. Independence was once sacred. After all many countries fought to free themselves from the colonial yoke in order to rule their own countries themselves. For a time their independence was respected. But soon these countries were accused of all kinds of misdemeanors and abuses. There is some substance in this accusation but if anything is to be done it is the international community that should do it. Instead certain countries which were in the past guilty of exploitation of the former colonies had taken upon themselves to act against the allegedly guilty countries. In particular the focus was on labour practices and human rights.

18. Despite the harassments, the countries of East Asia continued to grow and to compete successfully with the old industrial countries. Although it was said to be unintentional, the downfall of the East-Asian countries was finally achieved by devaluing their currencies and insisting on adoption of certain prescribed business practices. Public/private sector cooperation was made out to be almost criminal and government officers found helping the private sector were actually charged with corruption for doing what they had been doing always in the past.

19. Between the currency devaluation and the so-called campaign for good corporate governance, the recovery of the East Asian economy was effectively hampered. Admittedly, corporate governance should be more transparent but the suddenness of the imposition of stringent rules and regulations governing business practices have made recovery of the corporations difficult. Indeed many of East Asian corporations were unable to recover and had to be sold off to foreigners.

20. Today one hardly remembers the halcyon days when the East Asian countries looked set to conquer the world. All of them are in distress and some apparently cannot recover, try as they might. Why is it that these countries which had so successfully risen from the ashes of World War II, are now so incapable of repeating their past performance, repeating the magic that propelled their devastated economies to become economic tigers and dragons, admired for the miracles they performed.

21. The answer lies in their loss of self-respect and self-confidence. Almost without exception they believe that they were guilty of unacceptable practices when they rebuilt their economies after the devastation of war or the dead weight of colonial rule. They believe that to gain respect they must do everything the way the western countries are supposed to do. Even when they discover that in fact their detractors were actually far from practising what they preach, they cannot bring themselves to do their own thing. They struggle on to reform the way they are told they should. They accept the remedy prescribed without questioning whether it is suitable for them or not.

22. On the surface of it, the reforms prescribed are good. But as always there is no one prescription for all illnesses. The countries of East Asia are culturally very different from each other and so are their business practices. It is not necessary that reforms should take only one form. There should be other ways, which can make business and economic management acceptable and yet not be so disruptive.

23. One thing is certain. Sudden changes in the way of doing anything are disruptive. No matter how good is the reform, instant adoption will disrupt and damage rather than yield the expected results. We should therefore always be circumspect when adopting new ways of doing things.

24. The difference between what we have been doing in the past and what we are told to do now is centred on the concept of free market. The idea that a free market is good has become not only an obsession but has been made sacred. No one must question the rightness and the goodness of the free market.

25. The free market we are told is the ideal way to determine what is right and what is wrong, to regulate itself accordingly and to ensure that only the best will serve human society. The free market will determine who should drop out and who should go on to succeed. The free market will ensure the survival of the best. The free market will discipline itself and it will discipline the governments.

26. The most important factor which ensures that the free market delivers the best is free competition. The winner will survive and the loser will be eliminated. For competition to yield this result the playing field must be level, i.e. the rules of the game must be applied to all, big and small, established or new. With the field level the competition would yield the best result.

27. But is this really true? If a level playing field is all that is needed, then why is there a rush to become the biggest and the most powerful competitor in the field? Why do we see mergers and acquisition and more mergers and acquisition until the players become enormous and dominating the field? Obviously it is because in a level playing field the size of the contestants counts, counts so much that competition will actually be prevented.

28. We are familiar with the Japanese and Korean conglomerates. They are big and present a formidable force against competitors. But they are big not through acquisition or merger. They are big because they decide to expand in related directions through setting up their own subsidiaries. All of them expand in practically the same direction and they and these subsidiaries compete with each other and with the rest of the world. They are not monopolies. They are big but not overwhelmingly dominant.

29. But today, mergers and acquisition are leading to a situation, if not of monopoly, certainly oligopoly. The weak has been eliminated and no new player can come in. It would be suicidal for any new player to enter the automotive industry for example. In turn, the number of corporations in one industry is going to be so reduced that a practical monopoly will emerge. Will this be good for the world, for business, for the economy of countries, especially the weak countries?

30. Competition is good but in actual fact we are working towards the elimination of competition. It is doubtful that the need to do better will influence companies when they have become too powerful or they monopolise.

31. The free market demand that there be deregulation. The airline industry was doing quite well and serving the public satisfactorily until the industry was deregulated. Any airline can fly anywhere with any standard of service. It was believed that service would improve because of strong competition.

32. The only thing that happens was a lowering of standard in the service provided and even in the maintenance of

aircrafts. Several crashes were attributed to low maintenance standard. And many good airlines went bankrupt, losing huge sums of money and creating social problems. Even before Sept. 11, practically all the airlines were losing money due to cutthroat competition. Is it really true that deregulation will bring about better service for more people?

33. There should be competition of course. But the private sector cannot be really responsible. When failure is imminent the corners will be cut and good practices will go out of the window. I need not mention the examples.

34. Today, business is not about making real profit or accumulating assets but is about creating market perception of the value of companies. Share price is all-important. It need not reflect the profitability or real worth of the company. If there are buyers for the shares then the demand will push the price up and vice versa. If the money invested will not yield any worthwhile profit it does not matter as long as the shares can be disposed at a higher price and capital gains made.

35. Thus the dot com companies had their share prices so inflated that there is no way for the profits of the company to compensate for the investment. When suddenly the lack of viability of some of these companies became evident, the shares were dumped and panic followed. Billions of dollars were lost and contributed towards recession in even the most powerful economies.

36. We see also how share prices can be manipulated through short selling. There is nothing sacred about short selling that it cannot be banned or regulated.

37. Now we have globalisation. But it is interpreted to mean only the unrestricted flow of capital. Obviously it can only benefit those with capital most. It is fine when the flow is inwards. But we have seen how sudden outflows can destroy the economies of countries and even regions.

38. Of course globalisation also leads to the manipulation of the currencies of nations. Perfectly good economies went into a tailspin because their currencies were deliberately devalued by selling non-existent currency holdings.

39. Prior to the ascendancy of the free market, deregulation and the retreat of governments, the economy of the world was doing rather well. We have noted how countries devastated by war had recovered and gone on to unprecedented prosperity.

40. The world was experiencing unprecedented economic growth, world trade increasing and many countries were prosperous. Admittedly the advances in technology, in particular the speed of jet travel and information technology brought with them new and widened opportunities. But opportunities for whom? And must the opportunities be translated only in terms of capital flows? Cannot there be other ways of exploiting the new technologies, ways that can benefit most of the people in this world instead of just those with capital?

41. The EAEC was proposed not as a regional economic bloc but as a consultative group involving the East Asian nations. The idea was to critically study common problems and the new ideas coming out of the West. No one has a monopoly of wisdom. The East Asian Nations have as much capacity as anyone else to examine and formulate new ideas to modify or to reject what is presented before it.

42. We could have avoided the disastrous financial crisis of 1997-8 if we had dared to oppose currency trading and manipulation. It is one of those totally unproductive business activities. Malaysia alone lost almost 300 billion USD for a profit of at most 5 billion made by the currency traders. It is a case of wealth distribution on an enormous scale merely for the currency traders to make a few billion for themselves. The social cost is even worse.

43. The EAEG, if it is prepared to be critical and to initiate an East Asian solution to regional and world economic problems can contribute much to the regions and the worlds economic recovery. The East Asian countries have sufficient clout and have shown a capacity to contribute much towards the wisdom of the human race. It would be a pity if the voice of East Asia is stifled or so distrusted that the countries of the region may not speak to each other without the presence of people outside the region.