

The World Economic Forum – East Asia Economic Summit 2002

The Grand Ballroom, Putrajaya Marriot Hotel, 6 October 2002

"Renewing Asia's Foundations of Growth : Building on Diversity"

It is both a pleasure and an honour for me to be with you this evening for this gathering of distinguished delegates, speakers and captains of industry who have come from Asia and also from across the globe. I would like to thank the organisers for this opportunity to speak to this distinguished gathering.

2. World War II and the Pacific War were economically speaking disastrous for everyone. At the end both the victors and vanquished were devastated and impoverished, although for the victors the damage was slightly less.

3. Mindful of the negative results of punishing the defeated by forcing them to pay reparations, the victorious U.S. and its allies set out to resuscitate the world's economy including those of their late enemies. While those who were allied to the victors were positively helped through the Marshall Plan, the principal enemies were indirectly helped to recover and to rebuild. Japan in particular gained tremendously from the lessons they got from the former American enemies on the need and the benefits of quality in their goods.

4. Whether it was because of the necessity to ensure the former enemies did not join the Communist bloc or it was due to the understanding of strategy or just pure good naturedness, the fact is that the victors allowed and even helped the defeated enemies to recover. And recover they did.

5. The world was to be reshaped and governed by international law with the United Nations providing a forum for one and all to play a role in creating a just and peaceful world. While the Soviet Union was reassured through its power of veto, it was also to be curbed by the veto power of the four other big powers. The United States would be the nation to oversee that justice and fair play was enjoyed by all.

6. Trade needed a proper International Financial System. At Bretton Woods the international community decided on pegging currencies to gold so as to ensure the values of currencies are properly backed.

7. It was a caring world anxious to rebuild a new world from the ashes of war. Colonies were freed one by one and allowed to rule themselves any way they like.

8. It was in this atmosphere that the countries of the world recovered, became prosperous mainly through the production of goods and services and commodities traded across the world and within each country. The countries were left very much to themselves to work out the political and economic systems which they believed would help them to recover and prosper.

9. There were failures of course but by and large the countries of the world were able to rebuild themselves and to grow economically. World trade grew. The old manufacturing giants regained strength and grew, while new giants appeared on the scene, notably in Germany and Japan.

10. The Japanese in particular adopted a strategy of increasing market share through low margins. They succeeded in penetrating and even dominating world markets in some businesses and products. But the Western countries were not too badly hurt for they with their inventiveness and ingenuity were also recovering and prospering.

11. The poor in the poor countries also benefited as the low prices of Japanese products enabled them to afford household appliances, small cars and trucks.

12. Seeing the Japanese doing so well the countries of East Asia also made their bid. They too went for export driven growth, producing quality goods at low prices and generally reducing the cost of living not only in the poor countries but in the rich countries as well.

13. By the 1960s, the whole world seemed set to prosper. The outlook seemed even better when the Communist system collapsed and the Cold War ended. Now everyone could focus on economic growth without being bothered by ideologies and blocs.

14. But unfortunately it seems that some among the victorious capitalists saw little need to curb their avarice any more. They felt that the world no longer has the option to defect to the other side. There was no more other side. The winning side was free to exploit the world without restraint.

15. Making money through the production of goods and services and trading in them was rather slow. This way would take many years, the profits rather small, and off and on there would be failures and losses. Surely there were other ways of making money quickly. Greed was not a bad thing. Indeed at least one

of them believed that greed was great and gave lectures on the greatness of greed.

16. And so in the 1970s, pressure was applied on countries to go off the Gold Standard and the fixed exchange rate. Henceforth the market i.e. the currency traders would determine the rate of exchange of currencies. It was not too bad at first. The fluctuation was not too wide and businesses could live with them. A new business developed to help business deal with the uncertainties of the exchange rate. For a fee, the businesses could hedge. It increased the cost of doing business but the market could take it. The hedge funds made money on their currency insurance business.

17. Meanwhile the production of goods and services continued. Some failed. And along came the early saviors of failed businesses. They simply bought the businesses, stripped them of their assets and left the minority shareholders gasping. The asset strippers made a fortune before the authorities stepped in.

18. Then came the junk bond peddlars. Failed or never-do-well companies had their shares bought and the prices pushed up. Some great names appeared on the scene, dealing in junk bonds and ripping huge profits. Again the authorities stepped in and some notable traders ended in the chill.

19. But the itch to make quick profits gave birth to new ideas. Short-selling shares was one of them. It was speculation at first but when it became manipulation some countries disallowed short selling. Even ordinary share trading was regulated to prevent insider trading and the collapse of stock markets or of companies.

20. By then the interest had moved almost completely away from the performance of business, i.e. the profits, the assets and the potentials. The only thing that mattered was share appreciation or capital gains. The companies can be quite useless but it is possible even for failed businesses to have their shares pushed up and capital gains made. Then the shares would be dumped and the funds moved elsewhere.

21. I need not go into how the funds pushed up share prices or depressed them, or how CEOs with share options helped them. I am not a businessman. I don't play the market. But the fact is that the market Index has become more important than the Company Annual Report including the accounts. The Stock Market Index determines whether the people in the world feel good or not, whether they buy things or they don't, they take a holiday or not. The production and sale of goods and services

had become irrelevant. The main business of the world is the selling and buying of shares.

22. There was a time when traders tried to monopolise the trade in commodities. It made money for some but it was costly and it was dangerous. The quantities to be cornered was too big. This game did not progress very far.

23. Then someone thought of the idea of cornering the currency market. It was costly but hedge funds had made arrangements to have huge sums at their disposal and even more that they could leverage from the friendly banks. And so began the rampage of the currency traders. Any country was fair game, but most of all the newly emerging economies, rich enough to be fleeced but not powerful enough to fight back.

24. I need not bore you with what they did and how they precipitated the Asian Financial Crisis which became in effect the world financial crisis. Countries which were doing well, suddenly became poor, destabilised and intractably problematic. Some barely managed to survive and recover but some went through repeated crises, sinking more and more deeply each time. Perfectly good countries with enormous resources can be truly and really bankrupted.

25. All the while these countries were condemned for their incompetence, their corruption, their cronyism etc. The currency traders who sold down the currencies of these countries were never blamed. Indeed they became great philanthropists. No one bothered to look at the damage they caused, the poverty, the starvation and deaths they left in their wake while making their money. Robin Hood stole from the rich to give to the poor. These hoods stole from the poor and gave a minute portion of the ill-gotten gains in order to be known as philanthropists.

26. Look at the world today. It is not the prosperous, growing world of the post-war years, especially of the sixties to the eighties. It is a world of economic malaise. Even before September 11, the downturn was already evident. The dot com companies precipitated this. One could say that it is part of the usual economic cycle. Is it really true that the boom and bust cycle is inevitable? Isn't it possible that the world's economy is being mismanaged?

27. The fact is that we are not doing business anymore, real business that is. We are not producing goods and providing services. Yes, we are still inventing and developing and marketing new products and also improved version of the old products. But such business activities have become secondary.

28. What the world is interested in today is quick money, money that comes from speculation and manipulation; overnight money. The greedy have taken over the economy of the world. They can only see quick profits for themselves regardless of what happens to national and international economies, regardless of the pain and suffering of people, regardless of the turmoil and collapse of nations.

29. For the greedy speculators what matters is immediate returns, huge profits. Selling goods take too long. But selling shares and selling currencies promise huge instant profits. Overnight a billion can be made through the various forms of short selling. No real money is needed. No real transactions need to be made. The deals are made on the computer. They involve mere figures of fictitious commodities i.e. shares and currency that they claim they have for sale. The buyers buy the figures on the screen. Huge amounts change hands. Suddenly, in an instant in fact, someone becomes hugely rich, making millions and even billions for themselves largely, and also for their greedy clients. What happens to ordinary investors in the companies matters not at all. They can become suddenly rich or they may become impoverished and bankrupt. The companies and even the countries can become bankrupt. That is their fault. They are not open enough; they are guilty of corruption, of crony capitalism etc. Their Governments are to be blamed for not letting the market to manage their economy and their wealth.

30. No new companies are being started in order to produce goods and supply services. Companies are simply taken over, through mergers and acquisitions. Huge sums are paid. Where does the money come from? There are banks of course but there are clever ways of doing this without resorting to bank loans or money even.

31. And so overnight huge new corporations appear on the world scene. They are powerful, extremely powerful. Their strategy is simple. Become so big that no one else can compete. The small must either allow themselves to be swallowed or suffer failure very quickly.

32. The big corporations are great. They are supposed to be more efficient, to bring costs down and quality up. But are they? We see a number of them cheating. They cook their books, and the auditors help them with attractive figures. And of course they pay their cooks well, giving them huge salaries with private jets and yachts, and share options.

33. Sometimes, and sometimes only the cooking is discovered. Then their cronies in the government who may also have invested in them would bail them out. When this cannot be

done, the law seems to be applied. But the law is an ass and asses do not move fast. And so many continue to enjoy the good life. The rest of the world can suffer. The rest of the world can decline economically, experience turmoil and the collapse of whole governments and an increase in poverty even among the well-endowed.

34. I know this sounds like the ranting of a frustrated politician whose knowledge of finance can be written on the back of a postage stamp. But I would challenge anyone to say that it is real business, the business of making and selling things that has brought the world's economy into this dire state. I may be wrong in places but I am not completely wrong.

35. If the Asian economy is to be revived, Asians must look beyond their continent. They must help bring about a return to sanity. They must do so by ganging up against the greedy who are already shaping the world's economy and finance through the World Trade Organisation.

36. We need to re-look very closely at the interpretation of globalisation, the proposed regime for World Trade and Finance. What is being cooked up is a recipe for the exploitation of the world by the few and the greedy. They will destroy the world for a few billion dollars in their pockets.

37. We should resuscitate real business, the business of producing things, of providing service. Money should be invested in this and not in buying and selling shares alone or in speculation and manipulation of currencies.

38. The IT business held great promise. The Dot.Com companies accordingly sprouted like mushrooms. Unfortunately there was more stress on selling off the business to gullible investors at phenomenal prices. There were some potentials in the business of the dot.coms but only if the value was commensurate with the potential products. But no one cared for the true value of the products. Through deliberate and intemperate hypes the companies were sold in the market at fantastic prices. Then when real business was tried, the returns did not justify the prices paid for the companies.

39. Once that was realised, panic did the rest. All the dot.com companies collapsed, leaving the gullible investors high and dry. Again the dot.com business was not business. It was share value all over again, totally unrelated to assets value or potential profits. Now people are wiser. Setting up dot.coms is no longer as attractive as it was before. It is hoped that they will now do real business.

40. The world is changing. There can be no doubt that jet speed and instant sound and image communication require changes in the perception of things and in the way business is done. The question is are we doing the right things in the changed world that we are living in. We don't seem to be handling things well. Some of us are convinced that we are but the results so far have been dismal. The healthy world economy of the 60s - 80s have all but disappeared to be replaced by ill-health that is intractable. And we are still unable to reverse the trend.

41. Even in the handling of modern terrorism we are not doing well. Today a year after Sept. 11 2001, the situation is really worse than immediately after. Not only do people fear flying and traveling, but traveling is being made deliberately more difficult by security checks. The cost of doing this is draining even the richest treasuries. And invariably this fear and the subsequent reactions are affecting economies, making the already regressing world economy to shrink further.

42. We don't seem to be doing the right things. If I may say so the world has lost its way. The Malays, not the greatest business people in the world, have a saying, "when you lose your way go back to where you started." Others call this going back to square one, back to the drawing board.

43. We need to go back to the status quo ante, to the good years of the world's growth, to the 60s, 70s and 80s. We must not be afraid to admit that we have gone wrong and go back to doing real business. Stop the quick profits of assets stripping, of short selling, of speculation and manipulation of currencies, of monopolising world business, of the efficacy of size. If we cannot stop them completely, regulate them.

44. Forget the idea that markets should self-regulate, should discipline governments. Governments have not become anachronistic. They are still relevant. They have a good incentive to do the right thing by everyone, including the very poor, simply because democratic or authoritarian they know they will be thrown out if they don't care for the people's welfare. The market is about making profits, not about caring for the people and the country, not even about business.

45. Do business, real business. Stop the gambling on the share market and the currency market. Use the stock exchange as a place for raising capital, not making quick profits. Stop preaching to others. Stop examining the shoes of hundreds of millions for the hundred or so terrorists but look instead for the causes which move people, normal family people, to blast themselves to smithereens, and eliminate the causes.

46. Asians must lend a hand. Asians must make their voices heard in the fight to return to sanity. Not everything that comes out of the West is ideal and God-given truth. How many times have their ideologies and their systems failed? How many times have they rejected their own ideologies and formulas in order to replace them with yet another perfect and infallible formulas? The replacements will fail again. The present theory and interpretation of globalisation will, in time, go the way of all the ideologies and systems which they now discredit.

47. Asians must formulate their own solution to suit their particular situations. Asians must be pragmatic; willing to ignore ideological principles in favour of results. The Asian civilisation has survived longer than other civilisations. We must be brave enough to go our own way. If they follow, fine. If not that is fine too.

48. I have been asked to talk about "Renewing Asia's Foundations of growth: Building on Diversity". I think I have done just that, I hope and pray that you will think so too.