

BOAO 2004 ANNUAL CONFERENCE

HAINAN PROVINCE, PEOPLE'S REPUBLIC OF CHINA, 24 APRIL 2004

“Asia Searching for Win-Win : An Asia Open to the World”

I would like to thank the Boao Forum for Asia for this invitation to speak on a “Win-Win for an Open Asia”.

2. Asian countries in the distant past tended to be isolationist and closed. Thus Korea became known as the Hermit Kingdom and Japan closed its doors to foreign trade until Commodore Perry and his Black Ships forced it to open. China too had to be forced to open its doors to foreign trade, including the dumping of opium which eventually resulted in the so-called Opium War and the Boxer uprising. Following that Shanghai became an international port city and other ports of China opened up to world trade.

3. Elsewhere in Asia there was not much choice. The Asian countries may have wanted to keep out foreign traders but they were steadily forced to open up, to have foreign trading posts set up in their countries and eventually some were colonised so trade was facilitated.

4. The pressure to open up Asian countries for trade came almost exclusively from the Europeans. Trade and the opportunities to acquire wealth had led the Europeans to venture far and wide and to often use unacceptable methods in their quests. It was certainly not a win-win formula for Asia although the result was an Asia much more open to the world.

5. The pressure for Asia to open up is still ongoing. The Europeans still want to increase their trade and wealth acquisition. But now physical force is less often used. Today new concepts and approaches have been introduced which will also result in further opening up of Asian and other countries to European trade.

6. Globalisation and free trade is of course about opening up countries for trade. For good measure democratisation, transparency, standardisation of business practices and even human rights have been thrown in to achieve the same purpose. If there is no trade to be gained all these other issues will not be raised. Consequently fair trade will not always be the result unless Asian countries, the second biggest trading group after the European countries help to restructure the regime and lay down the rules for international trading.

7. There is no doubt that trade can enrich nations. Certainly the wealth and the development of European nations have been the result of trade between themselves and with the rest of the world. But in the past the wealth through trade had accrued more to the Europeans than their trading partners in Asia and Africa. This is manifestly unfair. Trade should be equitable, should result in a win-win situation, should enrich everyone of the participants. If Asia is to avoid losing out again, then Asia must play a role, in shaping the character of world trade in the future. Asia must do this because of all the partners of the Europeans only Asia has the strength and the ability to bargain on the terms of trade with the Europeans.

8. Asia must not shut itself off. It must be open. It must be prepared to trade and to invest and in turn to receive foreign investments. But it must ensure that it gains from opening up as much as its partners from the European countries do. The first obstacle that Asia must overcome is the inability to speak with one voice.

9. Asia as we all know is not homogenous. The peoples of Asia are very different ethnically, culturally and in terms of the stages of their development. Some are developed and sophisticated while many are extremely poor and undeveloped. In between there are quite a number at different stages of development. It wouldn't do for the rich countries of Asia to ignore completely the plight of the poor. If our objective is to achieve a win-win result for Asia, we must ensure that the poor Asian countries also gain from our efforts.

10. This heterogeneity of Asia makes it difficult for Asian countries to plot a future that is equitable in terms of benefits. Already the most developed of Asian countries tend to identify themselves with the developed European countries. This will of course weaken the less developed Asian countries when they strive for equitable trade terms.

11. Asians must therefore overcome their differences and come together in the search for a win-win solution. The poorer countries must be given a hearing by the more prosperous Asian countries in a purely Asian forum and their plight taken up together in the international fora, in particular the World Trade Organisation. As we all know many of the poor countries are not even members of the WTO. The Asian countries which are members must champion their cause.

12. If Asian countries speak with some semblance of unity then only are we qualified to talk about a win-win formula for Asia. It will not do if the Asian members of the WTO for example speak only for themselves, each with its own interest at heart. We cannot claim to be working in the interest of Asia if we promote only our country's interest or only our region's interest.

13. We are required by the WTO to reform not only in the terms of International Trade practices but also in the practices within the countries involved in world trade. But we must take into account the differences in the culture and readiness to absorb and practice new ideas and values by the different countries. It will take time for some countries to adjust and accommodate the so-called universal ideas about free trade, good governance, transparency etc. Force including economic sanctions should not be used in order to get them to comply. The use of force itself is contrary to the very ideology the developed countries preach. It reminds us too much of the ways of opening up our countries in the past and we cannot accept that.

14. While always bearing in mind that Asia is heterogeneous in terms of the stages of their sophistication and economic development; while accepting that the participation of the poorest countries in an Asian Union is not practical at the moment, those who are developed enough to play a role in the interest of Asia as a whole should not be diffident about speaking up for those who are not represented to ensure that right from the start there would not be inequitable distortions.

15. The proposed EAEG or East Asia Economic Group was meant to bring the countries of Northeast and Southeast Asia together. Although the levels of development

of the two regions and countries are not the same, they nevertheless have a common interest in trade and economic development. The terms that they gain for themselves should benefit others outside the group eventually.

16. The EAEG is therefore a good group to represent Asia in the shaping of world trade and international policies presently.

17. Countries like Malaysia and Singapore had always been open to world trade and investments. Clearly they have prospered because of this. But for them trade is a two way thing i.e. they import as well as export. But for many countries with nothing to export opening up may mean more imports than exports. A perpetual trade deficit will be the result and this is obviously not good for them.

18. A solution may be found in accepting foreign investments in industries with export potentials. This is how Malaysia became a big trading nation. Foreign investments however require a good investment climate and countries must be given time and help to create this climate and to wait until they receive substantial foreign investments with export potentials before they are forced to open up their markets. The rich countries stand to lose very little by opening up their markets for the goods of these countries before they insist these countries open up to foreign goods. They should be allowed to retain whatever competitive advantages they may have while protecting their immature industries.

19. Investments too have to be regulated. There is a difference between producing for local consumption and for export. Locally owned industries must not go under as a result of foreign investments. Since Foreign Direct Investment enjoy incentives such as tax holidays, sales within the domestic market must be subjected to taxes.

20. It is possible for the capital rich foreign investors to buy up all the indigenous businesses including banks. The result would be total dominance of the country's economy by foreigners. This is obviously undesirable. Until a country has developed sufficiently there must be some regulations or laws to prevent foreign dominance of a country's domestic economy even if such provisions contradict the principles of free trade. In other words free trade cannot be absolutely free. It must be regulated to protect the poor from the rich.

21. Then there is the problem of the very poor countries of Asia which have little to export, which are land-locked and inaccessible, which have very small domestic markets, which are costly to invest in, which are often unstable. Should Asia ignore them?

22. The ethnic Europeans through the expansion of the European Union and NAFTA (North American Free Trade Agreement) are obviously taking care of all European countries. It is unconscionable for Asians to neglect the poor Asian countries.

23. Free trade and globalisation as presently interpreted and conceived are obviously beneficial to the rich trading countries. Those poor countries which for one reason or another are unable to trade are not going to derive any benefit from the opening up of their countries for trade. But globalisation would not be globalisation if only some of the

countries of the globe practise and benefit from it. Globalisation must be for all and must benefit all.

24. At the inaugural meeting of the Boao Forum I had suggested a world tax on global businesses. What form it takes and what quantum can be worked out. But as in most countries, those who profit from businesses pay taxes to the Government which can then be used to alleviate the miseries of the poor, in a globalised world, those who profit from global trade must pay a tax to a world body which can be utilised to improve the economic conditions of the poor countries.

25. Aid is no longer being given by the rich despite the commitment to allocate 0.7 % of the GDP for this purpose. As a result the poor have already become much poorer. With globalisation and free trade the poor will become even poorer. We know that even in a single ethnic society the disparities between rich and poor will destabilise society, the extreme disparities between the rich and poor countries, caused by stoppage of aid, followed by globalisation will lead to turmoil and tensions for the world community. We are already seeing some of this turmoil even now. Unless something is done this will certainly happen. Hence the proposal for a world tax on global trade.

26. We had gone about the wrong way to help poor countries with aid and loans. Because they were not skilled in the use of funds made available to them, the expected development did not take place. Instead we see some of these countries worse off than before. They are now unable to repay the loans they had obtained, unable to borrow any more money and have become literally bankrupt. The world has gained nothing from this indebtedness and bankruptcies.

27. The success of the developed countries is due to their skilful investments of the funds that they have. One of the prerequisites of development is adequate infrastructure. With good infrastructure a country would be able to enjoy a better climate for growth along with a cheaper cost of living.

28. For example an efficient transportation system would bring down the cost of imports and increase the competitiveness and margins of the exports. Additionally the construction of infrastructure projects in themselves would contribute directly to the earnings of the country and the people. Rich countries can build the infrastructure for themselves and by themselves. But poor countries cannot do this. Again the disparity between rich and poor is going to widen.

29. To break the vicious cycle, the poor must be provided with the needed infrastructure.

30. Since financial aid and loans have not helped the poor countries to provide themselves with the infrastructure, to ensure that the needed infrastructures are built the relevant world body must build these facilities for the poor countries. It is like a Government collecting taxes from the rich to build the infrastructure in the poorer parts of the country.

31. If roads, railways, ports, airports, power and water supplies are provided these poor countries, they are bound to grow much more easily and rapidly. If need be the world body must operate these facilities until locals can take over. We have seen again and

again how the poor areas of a country begin to develop and grow as soon as roads and railways are built by the Government.

32. It is the duty of the rich countries of Asia to turn the attention of the WTO and other international organisations concerned with trade and economic development from the very selfish objective of enriching the rich further, to helping to reduce the poverty of the poor. This should be the first agenda of globalisation or at least the twin of the agenda for enriching the rich.

33. And the rich would eventually gain from reducing the poverty of poor countries. Malaysia was a very poor country before. But investment by foreigners have enriched it. And today Malaysia is a good market for the products of the rich. Had we remained poor there would be very little we can buy from the rich. Enriching the poor within a country, or within the world community benefits not just the poor but also the rich, perhaps more so the rich.

34. The people who profit from the opening up of countries for trade, who benefit from globalisation must give back something to the world, particularly to those parts of the world which have not and cannot benefit from free trade in a globalised world. The amount to be collected need not be a burden or a disincentive to world trade. Actually it would be a minute fraction of the corporate tax annually paid to the countries the corporations do businesses in or belong to.

35. The world trade tax must replace aid and loans if we want to see the poor countries develop reasonably.

36. Another matter that needs the attention of Asian countries concerned with achieving a win-win result from market opening is the problem of trading currency. Today we use the US Dollar and we value our currency against the Dollar. The dollar has been depreciating badly, being 40% devalued against the Euro, and somewhat less with the Yen. This means selling in US Dollar earns us less money than what our products are really worth. It is probable that the US Dollar will appreciate again, although not likely in the near future.

37. The question is should Asian economies be captive to the uncertainties of the US Dollar? When Asian currencies depreciated against the US Dollar, during the Asian Financial Crisis, we suffered very serious economic recession. But now, when the US Dollar devalues against other currencies, the United States actually enjoys economic growth. The US Dollar devaluation affected the US economy and finance not at all because payments for goods and debts are in US Dollar. In fact US goods have become cheaper. The poor countries keep their reserve in US Dollar and they suffer losses when the US Dollar devalues, and they suffer losses when the US Dollar revalues against their currencies. Opening up of Asian and other countries exposes them to losses whatever happens to the US Dollar. It is time we consider having a special trading currency for Asia if not for the whole world.

38. In 1967 Alan Greenspan, currently US Federal Reserve chairman, wrote in an article that, I quote; "gold and economic freedom are inseparable and that gold being durable, portable, homogenous, divisible has significant advantages over all other media of exchange" unquote. Greenspan was obviously not in favour of the US Dollar as a

medium of exchange. So to suggest that we get away from the US Dollar is not something new. If Asia is to really benefit from the opening up of its market it must devise a new trading currency, a new exchange medium, based ultimately on gold.

39. If Asia is to really benefit from the opening up of its market then Asia must study the return to the Gold Standard or to advocate a gold currency in the settlement of trade.

40. It may be claimed that countries just do not have enough gold to pay for its imports. The United States have at the moment only 262 million ounces of gold, and it would need half this amount to pay for one year's import of oil alone. It would exhaust all its gold reserves in one year of trading. But actually no country imports without exporting. The gold earned through exporting can pay for the imports. The United States would simply have to export more and reduce its deficits if gold is used as currency. A more healthy state in the finances of the country would be achieved.

41. As it is today the United States has a 3 trillion dollar deficit and it is likely to blow up. When it does Asia would be one of the worst sufferers. The present international financial regime and practice is truly unhealthy. It is unhealthy for the world and it is unhealthy for us in Asia as we open up.

42. As can be seen a lot of things need to be done if we want a win-win result for an Asia that is open to the world. There is no single thing that we can do in order to achieve the desired result. Certainly there is no single thing that we can do on our own in order to achieve the desired result. The world needs to sit down and discuss these things together as they once did at Bretton Woods. But before that the East Asian countries must come together first, to look at themselves and the nations of Asia, to understand the situation and needs of everyone, including those not going to be represented, to present our views and to help shape the international economic and financial regimes. Only then can we hope that an open Asia will achieve a win-win result.