

SPEECH BY: DATO' SERI DR. MAHATHIR BIN MOHAMAD  
( PRIME MINISTER )

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"COOPERATION AND COMPETITION IN THE PACIFIC"

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TIME:

Honourable President of the Chilean Council  
for International Relations;  
Distinguished Members and Guests;  
Ladies and Gentlemen,

I am delighted to be here in Chile. As you know this is my first visit to this country. We have, I think, neglected each other for too long. I hope my visit can contribute towards forging a new framework for mutually beneficial cooperation.

2. I am honoured to be invited to address you and to share with you some thoughts about the future of the Asia-Pacific region. For centuries the Pacific Ocean has kept us apart. However, the relentless advance of communication technology is drawing us closer together. Far from being an ocean that divides us, it is now becoming an ocean that links us. We must take advantage of this shrinking ocean to restructure our relations, particularly in economic interaction.

3. I know that you in Chile have already sensed this and have taken steps to strengthen your Pacific identity. You are for example, active in the Pacific Basin Economic Council (PBEC) and have only last month joined the Pacific Economic Cooperation Conference (PECC). You have also expressed interest in establishing contact with ASEAN through the Rio Group and in the APEC process. I welcome Chile's active interest in the emerging structures of Pacific cooperation. The strengthening of bilateral ties between our two countries is also an intrinsic part of this process and is one of the reasons for my visit.

4. East Asia is reputedly the world's most dynamic region. Growth rates now average more than 5 per cent. Most East Asian economies are expected to register even higher growth rates of between 7 to 10 per cent this year. On the whole, the East Asian nations already account for more than 38 per cent of global trade. By the end of this century the region will outrank all others in trade and investment flows, productivity and growth.

5. The East Asian region owes its astounding economic success to two main factors, namely free-market policies and free trade. If you look around the East Asian region, you

will note that every country that has registered high growth rates also practices a free-market economy. This is not a coincidence. The free-market system is not a perfect one but no better alternative exists.

6. This reality is now also more widely accepted in this part of the world. The countries of South America are increasingly adopting free-market policies, economic liberalism and deregulation. State-owned industries are being privatised. I believe, these are necessary prerequisites for sustained economic growth. Certainly the Malaysian Government is committed to such an approach and the results have been impressive. I am convinced that with your policy shift in favour of a market economy, South America will begin experiencing high growth rates as well. Indeed Chile's own high growth rates bear testimony to this. South America will also be more integrated with the global trading system and will benefit from trade flows and investments. These are exciting developments which augur well not only for South America but also for East Asia as a whole.

7. The East Asian region today is at a cross-road. There are many impulses pulling and pushing us in different directions. There is for example the impetus to Pacific-wide cooperation that has found expression in PECC and PBEC. There is also the Asia-Pacific Economic Cooperation or APEC.

8. Malaysia of course supports such forms of cooperation but it is important to ensure that it will genuinely serve the needs of smaller Pacific countries such as the South Pacific island states and groupings such as ASEAN. It must not become a vehicle to perpetuate existing asymmetries and policies that place us at a disadvantage. Despite these concerns we are prepared to keep an open mind on the issue. APEC has perhaps the potential to be a pan-Pacific organisation encompassing a number of sub-groupings. If APEC is to move forward however, its goal must be an organisation of equal states committed to free trade and economic cooperation both in principle and practice. In the meantime it would be more convincing, and certainly it would inspire confidence in us, if those who loudly espouse its benefits demonstrate their commitment to free trade in tangible ways. Chile and others in this part of the world, as much as China and Vietnam, should join the APEC process and work with us to achieve these objectives.

9. In the opposite direction is the trend towards economic regionalism. In Europe, this trend will in the immediate term culminate in EC 1992 and in the longer haul in greater European integration. In the Americas, the US-Canada Free Trade Area has already taken shape. It may soon lead to the formation of a North American Free Trade Area or NAFTA. Under the Enterprise for Americas Initiative, the concept will be extended to cover all of the Americas. Judging from the many statements that have been made by its principal proponents, the rationale behind these groupings are certainly good. The removal of tariffs and trade barriers and efforts

to encourage greater investments are all laudable.

10. The emergence of large and powerful regional economic groupings will however also impact upon the Asia-Pacific and on other developing countries in many other ways. NAFTA alone will have a market of 360 million people with an annual output of US\$6 trillion while the EC will have a market of 340 million people with an output of nearly US\$5 trillion. If these groups remain committed to free-trade internally and externally, it would greatly stimulate global economic growth. But let us not forget that these groupings also have the potential to do enormous harm if the fundamental principles of free-trade are sacrificed for political expediency. Even before these groupings took full shape, we have experienced their intemperance. What is there to guarantee that things will not get worse when their influence and weightage increases?

11. Let me illustrate these concerns with some tangible examples. Meeting in the New York Plaza Hotel in September 1985, the G-7 nations decided that a weaker US dollar was needed to stimulate U.S. exports. They subsequently intervened in foreign exchange markets to give effect to this decision. As a direct result of this policy, now known as the Plaza Accord, the dollar weakened and the Yen and other major currencies appreciated. This was of course good for U.S. exports but for Malaysia it meant that we had to take a very big revaluation loss on our Yen-denominated external loans. Although we and other smaller nations were so adversely affected by the Plaza Accord, we were not consulted. We the poor nations were simply expected to adjust to these changes meant to benefit the rich.

12. A few years later, our palm oil was targetted by powerful lobby groups in the U.S. which were envious of our success in producing a wholesome oil at competitive prices. They launched a smear campaign against palm oil, branding it a poison. Discriminatory legislation against palm oil was introduced at both federal and state levels. When we sought to defend ourselves we were hauled up before the International Trade Commission, a U.S. federal agency, which accused us of making unsubstantiated claims. Those who claimed that palm oil is damaging to health have also no proven evidence to support these allegations. But they were not subjected to action by any U.S. agency. In the meantime pressure applied on palm oil users forced them to label their products as free from tropical oils, thus insinuating that palm oil is dangerous. Only 3% of edible oil consumed in the U.S. is made up of palm oil, yet all the heart diseases in the U.S. are attributed to it.

13. Chile itself has not been immune from such unfair practices. It was not so long ago when one or two contaminated grapes led to the imposition of a total ban on the export of all Chilean grapes to the U.S. I am told that Chile lost over US\$340 million as a result.

14. When the big countries are disadvantaged, when their beef exports are discriminated against because of arbitrary standards, when their rice exports face high tariffs, they are able to use their economic clout to protect their interests. But what do the smaller countries do when we face such difficulties?

15. And these are not the only issues developing countries have to contend with. A recent UNCTAD report, for example, estimated that at least US\$25.6 billion of exports from developing countries are affected by non-tariff measures such as import quotas and voluntary export restraints. Again the big countries have the power to force open the markets of developing countries with the Super 301 enactments, an example of an international application of a national law. What however do we do when our exports face non-tariff harassment and are adversely affected by non-trade issues like labour rights, environmental problems and even over whether we should accept illegal aliens?

16. Unfortunately things will not get better, at least in the near term. The Uruguay Round has floundered principally because of differences between the U.S. and the EC. Indeed, these two giants can hold the entire multilateral trading system to ransom because of their differences. At this stage, I am not hopeful that the Uruguay Round can be successfully concluded. The world economy also faces uncertain prospects. The industrialised countries are already facing recession. As demand weakens and the terms of trade deteriorate further, protectionism will increase. Trade tensions can therefore be expected to rise with adverse consequences for developing countries.

17. Against this backdrop of an uncertain international economic situation, Malaysia has proposed the formation of the East Asia Economic Group (EAEG), a forum of East Asian nations to consult on ways to uphold the free-trade system. We have explained that as East Asia is so heavily dependent upon the free flow of trade both internally and externally, we feel the need to come together to ensure an open trading system within our group and between any member and the rest of the world. Like NAFTA, we hope that we can also discuss ways to reduce trade barriers and promote investments and cooperation. Such a grouping will never become inward looking or protectionist simply because we would have most to lose by doing so. As a first step this proposal is now being discussed within ASEAN though much outside pressure is being exerted against ASEAN to abandon it. It would seem that East Asians are not to be allowed to even set up a consultative mechanism while trade blocs take shape elsewhere. We are not even allowed to call ourselves East Asians. We prayed for an end to the wasteful East-West confrontation, but the unipolar world which has emerged does not seem any less threatening.

18. Those who claim to abhor trade blocs must not themselves retreat behind blocs of their own while they forced

others to open their markets. Free trade must be universal and must be so structured that it will be possible for the poor to grow and become developed. A demand for national status to be mutually practiced may sound fair. But in practice the rich and powerful with the capacity to go abroad will be the real gainer. Of what benefit will it be for a tiny bank in the developing country to gain national status in the land of corporate giants?

19. Still developing countries must continue to build up bilateral linkages and widen our trading base to include non-traditional markets. It is always unhealthy to be too dependent on one or two markets. Some time ago several developing countries established a forum to promote South-South cooperation. It has come to be known as the G-15. I am convinced that South-South trade can yield good dividends. I am convinced also that this will be demonstrated by Malaysia-Chile relations. I am realistic enough to accept that South-South cooperation is not the solution to all our problems but it can certainly be an important part of the answer.

20. As for Chile, I hope that apart from enhancing trade with developing countries in general, you will continue to give priority to ties with East Asia. With its high growth rates and its ever increasing demand for machinery, consumer products, food and raw materials, East Asia should be an attractive profit center for Chilean businessmen. East Asian countries are also looking for new markets and new opportunities for investment. They can be encouraged to look to Chile and South America.

21. Chile in fact is uniquely placed to act as a bridge between East Asia on the one hand and the rest of South America on the other. Certainly Malaysia would like to use Chile as a base to expand its economic and trade ties with the rest of South America. You have an open economy and good infrastructure. The Port of Valparaiso is already emerging as an entrepot for the surrounding states. To reap the full benefits of cross-Pacific linkages, serious efforts should also be made to strengthen shipping and air links between Chile and East Asia. The decision of both our governments to discuss these issues in the next few days will contribute to this. I look forward to the day when Malaysia Airlines and Lan Chile fly to each other's capitals, establishing for the first time a southern route linking both our countries and regions. There are thus bright prospects for cooperation between Chile and Malaysia and on to East Asia.

22. Chile is joining the Asia-Pacific community at a critical juncture in the history of the Asia-Pacific. The Pacific can offer much to Chile and other South American Pacific states, but only if it remains open to free trade and cooperation. The events that are shaping the Asia-Pacific today are not merely of academic significance. For countries like Malaysia and Chile who depend on free trade to prosper and grow, it may be the key to our survival.

