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TOWARDS A PROSPEROUS FUTURE

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Distinguished Guests,
Ladies and Gentlemen,

Allow me to congratulate the World Economic Forum (WEF) for organising this first meeting of the Europe/East Asia Economic Forum. I would also like to thank them for inviting me to deliver this keynote address. The hosting of this forum is indeed timely given the rising protectionism in international trade and the creation of exclusive trading blocs. Unless good sense is restored there will be much that everyone will lose. And good sense will only surface when interaction and dialogue expose the dangers facing us.

2. For the Eurocentric world of the past East Asia was the Far East. And the Far East conjured up many strange and romantic images of exotic Cathay and dragons, of tea, opium and exquisite silk, of strange peoples with even stranger customs.

3. Unfortunately for the European romantics, the Far East has now become East Asia, a region of concern not to the romantics, of which there are not many left, but to politicians and economists. European uneasiness seem to suggest that Asia today is a more serious threat than even militaristic Japan in the first half of the century. Running through this perception is a current of distrust and fear. For East Asia is peopled by different people, not Europeans but by non-Europeans.

4. Thus a pacific but economically progressive East Asia in the post World War II period does not seem to be as welcome as a pacific and prosperous Germany and Italy, the European partners of the World War II Axis. Whereas the recovery and economic growth of the two European members of the Axis were not hampered, indeed were welcome, the economic growth of a pacific Japan and of the little Japans of the Far East appear to be less welcome.

5. And so Europe, together with the transplanted original European Community, the United States of America have tried to stifle the growth of the East Asian states through various impediments. Apart from the attempt to impose the western model of democracy, clear attempts have been made to

render the economies of the states of East Asia uncompetitive.

6. This is unfortunate. The world has gained much from the East Asian approach to development. Having accepted that the military route is not productive, Japan had turned its tremendous skills and energy to creating a world where the poor can live almost as comfortably as the rich. It is the Japanese who succeeded in lowering cost without sacrificing quality and so make available yesteryear's luxuries to more people. True it is not altruistic but the end results are the same.

Ladies and gentlemen,

7. It is difficult to imagine a world without Japan now but it is worthwhile to try and do so. Without Japan, Europe and America will dominate the industrial world. They will set the standards and the prices which they and the rest of the world will have to pay for the goods which only they can produce.

8. In their quest for ever higher standards of living for their people, their likely approach in the absence of competition is to raise prices in order to recover cost. Their socialistic and egalitarian philosophy demands that their workforce be paid whatever they and their unions think they deserve. The Europeans will meet all their demands and the consequent not inconsequential demands of their executives. Cost will go up as pay packets become heavier while workloads become lighter.

9. Raw materials imported from the poor South will be fixed at the lowest level when the European North are the sole buyers. This will make the South a poor market. Rather than pay higher prices, loans and aid would be given. The terms of trade will always be against them, rendering them poorer and poorer and making them less and less independent. In addition the loans condition will make debt-slaves of these nations.

10. Since all the products of the European North will be high-priced, perhaps three times higher than they are now, the poor South would not be able to afford the radios and televisions and the few domestic appliances which they take for granted now, nor would their small farmers own pick-up trucks and small motorcars. Generally the South would have a much lower standard of living than now.

11. The economic development of some of the states of the South and the emergence of a number of vibrant industrial countries in East Asia would also not happen. It is important to remember that it was the need to compete with the Japanese that forced the Multi-National Companies (MNCs) to invest in the low labour cost South. Without this need, there would be no investment in the developing countries. And since there would be no Japanese to invest, the stimulus

to growth due to foreign investment would not be there.

12. In addition without Japan and the Japanese success story, there would be no role model for the East Asian nations. They would continue to believe that the Europeans could not be challenged in the fields they had pioneered and perfected. Sophisticated industries were not for the East Asians. At best they could imitate and produce inferior products. And so there would be no tigers or dragons to worry the West.

13. It was Japan which proved that it could be done and done well. And the other East Asian countries dared to try and to their surprise and that of the rest of the world they succeeded. East Asians are no longer shackled by an inferiority complex. They now believe what Japan can do, they too can. And they did.

14. A world without Japan will certainly be very different. It will not be uncharitable to say that the rich North would be richer and the poor South would be poorer. The European North's domination of the world would be permanent. Countries like Malaysia would continue to plant rubber and mine for tin and sell at whatever price dictated by their rich industrialised customers.

15. It is a scenario that many will dispute. But it is a plausible scenario nevertheless. If we try to imagine what would happen if the Japanese did not invest in Europe and America and kept all their cash at home we may get a fair idea of the consequences. The Europeans would have to pay higher prices for their own manufactured goods and would not have the money needed for their own expensive lifestyles.

16. As it is, if Europe becomes protectionist Europeans will have to pay more for everything. On the other hand the countries which open themselves to the products of East Asia will enjoy lower-priced high quality goods. Perhaps the economies of scale will not be achieved by the East Asians without the European markets. But they have demonstrated that even small production runs can make them competitive. With abundant low-cost labour, the investments in machinery for high-speed production will not be needed. In any case East Asian investment in the developing countries will sooner or later enrich their markets and make up for the loss of the European market.

17. The countries of East and South East Asia now constitute a very substantial market for the goods of Europe, America and Japan. This is due to their rapid economic development resulting from investments initially made by the Japanese. As they prosper, these East Asian countries began to invest in their less prosperous neighbours. Today the ASEAN countries, still classified as developing, are actually investing in Indochina. With this the chances of the states of Indochina progressing the way the ASEAN countries

have are quite good. Once Indochina moves into the mainstream, East Asia will become a big market and a powerful economic region.

Ladies and Gentlemen,

18. There are some who believe that the free market system is reserved only for democratic countries. One should not help undemocratic countries to benefit from the free markets. One should insist upon democracy first or democracy together with free markets before one extends a helping hand to develop a country.

19. In East Asia there are countries which are not democratic but which have more or less rejected the command economy of the Communist. They have espoused private enterprise and the free market. The signs are that they can prosper economically. Their people while still politically tethered, are now better off. Do we try to prevent them from prospering in order to force them to be democratic or do we help them now?

20. In the former Soviet Union and the Eastern European countries, democracy was introduced along with the free market. The result is chaos and increased misery. Not only have the countries broken up, mainly through bloody civil wars, but there is actual recession and more hardship for the people than when the Communists ruled. One may ask whether democracy is the means or the end. Democracy at all cost is not much different from Communist authoritarianism from the barrel of a gun. Both in theory are for the good of the masses. But clearly the results of democracy in some of the Eastern European and the former Soviet republics are not much different from Communism as far as the people are concerned. Even the nations, broken up and unstable, are not better off.

21. In a number of East Asian countries, while democracy is still eschewed, the free market has been accepted and has brought prosperity. Perhaps it is the authoritarian stability which enables this to happen. Should we enforce democracy on people who may not be able to handle it and destroy stability? Or should we allow for a natural evolution of democracy? Actually authoritarian rule cannot be sustained once a country achieves prosperity through a free market economy. Sooner or later the prosperous free market people will demand for more freedom. And the Government must give in. Thus there will eventually be not just a market economy but democracy as well. Perhaps this is wishful thinking but events in a number of countries show that a prosperous free market people cannot be kept shackled for long. So helping undemocratic nations to prosper under a free market system is a positive way to achieve democracy.

22. East Asian countries' involvement in rehabilitating the economies of their less democratic members is perhaps a better way than the precipitate adoption of democracy in East-

ern Europe and Russia. Democracy should come gradually. This is the East Asian way. This is culturally more East Asian.

23. And culture is important. East Asia is not just a geographical entity. It is also very much a cultural entity. To be East Asian a nation must not just be geographically in the right location. It must also be culturally East Asian. And the cultures of East Asians are very different from the cultures of the West. We are for example not so given to giving unsolicited advice or sitting in judgement over others. Diffidence is good manners for us. Bluntness is not.

24. And so despite differences in political ideologies, the countries of East Asia may evolve in the near future into a crescent of prosperous nations extending from North East Asia to South East Asia. This economic crescent will believe in free enterprise and in free economic competition. It has demonstrated that it can prosper and succeed without being inward-looking and ganging up. It is prepared to compete and compete freely.

Ladies and gentlemen,

25. The only grouping in its midst so far is the ASEAN group. This group is more political than economic. It is not protectionist. It is not a trading bloc. When in 15 years time Asean Free Trade Area (AFTA) is formed, it will give certain advantages to the members in intra-regional trading. But otherwise the members will continue to be free to trade with the rest of the world.

26. Despite the ascendancy of protectionism in Europe and North America, East Asia has not shown a desire to form a trading bloc of its own. There has been no governmental proposal for a free trade arrangement or area. There has been no proposal for an East Asian Preferential Trade Arrangement (PTA), Free Trade Area (FTA), customs union, common market or economic union in the last decade although South Korea did propose an "Asian Common Market" in 1970 and Japan's MITI proposed an "Asian Network" in March 1988.

27. There has, however, been an ASEAN proposal for an East Asian Economic Grouping or Caucus. This is not a PTA, FTA, a custom union, a common market or an economic union. It is merely a forum for the East Asian countries to discuss common problems related to international trade so that a common stand can be taken with regard to maintaining international free trade. Additionally it can help the less developed members to accelerate economic growth in the same way that the ASEAN countries serve each other.

28. The countries in the EAEC can continue to trade freely with the rest of the world including EC and NAFTA. We think it will do them no harm. This is because without any formal agreement they have always been able to trade with the world and to achieve growth.

29. And they can trade with each other. Without the intervention of Governments or deliberate integration of East Asian initiatives, intra East Asian trade has vigorously grown to 40.8 per cent of their total trade in 1990 despite the fact that the total GDP of East Asia was only 18 per cent of the World's GDP.

30. Last year the U.S. took only one fifth of the exports of the East Asian economy, down from one third in 1985. Japan now exports more to East Asia than to the U.S. even though East Asia minus Japan is only 19 per cent the size of the American economy.

31. Clearly a formal agreement or arrangement or community is not necessary for the East Asian nations to prosper. Merely by reacting to free market forces, they are able to make their economies complementary and mutually stimulating. But for their own good and that of the world they need to defend the world's free trade system.

32. In the meantime what is happening in Europe? Fear of another destructive European war as well as the disintegration of their overseas empires had forced the Europeans to come together in the immediate post World War Two years. A European Economic Community was mooted in order to rebuild Europe and reduce the type of European belligerency which had prevented that continent from knowing peace for centuries. Essentially the EEC was to be an economic bloc. It would be in a better position to compete with the culturally similar United States of America.

33. The European Community was a sound idea and should succeed but for the emergence of Japan as an economic power house. This threw their carefully-laid plan into disarray. Instead of sticking to fair competition in a free trade environment as advocated by both Europe and America, the European North decided on protectionism and pressures. True the Japanese had quite unnecessarily protected their market. But the strategy adopted by Europe through the Group of 7 is contrary to the principles of fair competition.

34. Voluntary quotas and yen revaluation may help Europe but the cost to them can be high. In the case of quotas it is the people in Europe who must pay. The revaluation of the yen in particular simply made the Japanese richer. They were not only able to buy their raw materials, including petroleum at half-price, but their investments and purchases abroad cost them much less.

35. Unable to compete with East Asia in the burgeoning electronic and consumer-goods industries, Europe opted for the manufacture of sophisticated military hardware. This was fine as long as the Cold War lasted. Today weapons no longer find a ready market. Manufacturing facilities have to be closed down and hundreds of thousands have to be

thrown out of work.

36. Because wages are maintained at an artificially high level and unemployment benefits are unlimited, new investments are not forthcoming. Thus at a time when state revenues are low due to a downturn, the need for more expenditure on social security is increased. The two just cannot be reconciled.

37. The end of the Cold War has not brought any relief. True there is a lot of savings on military expenditure but the cutback only resulted in soldiers becoming redundant and unemployed. At the same time the new democracies in Eastern Europe and Russia are not developing into good markets for the West. Instead they require massive financial support of Europe, just when it can least afford it. Failure to support these countries can result in massive migration from East to West. In the past when this happened the problems were horrendous and defy solution. More and more we are seeing the kind of racial intolerance of the pre-war period. Thirty million East European and Russians migrating to the West will upset everything, including economic recovery.

38. The mechanism of economic cooperation among the European countries has all but broken down. The recent failure of the Exchange Rate Mechanism (ERM) is an example. There is still a great deal of will to forge ahead with the European Union. But will alone cannot work.

39. The fact is that Europe is living beyond its means. Its people are being paid too much for too little work. Europe cannot really expect the rest of the world to support their profligacy. While Europe expects high living standards and a healthier environment for its people it is not willing to make sacrifices. When it was suggested that Europeans accept a lower standard of living in order to sustain the environment, they reacted with horror. Yet they expect the poor countries not to exploit their own natural resources because these are needed to sustain the environment of the North. In other words the poor must sacrifice for the rich. But the rich will not make any sacrifices.

40. There was a time when Asians looked West for guidance and models. Perhaps it is time for Europe to look East for the same. Perhaps this forum can serve that purpose.

Ladies and gentlemen,

41. I am not sure whether you consider me an East Asian or a South East Asian. Whatever I may be, I must admit that my views are coloured by the fact that I am not only a South East Asian but I am also from a developing country.

42. Malaysia has certain ambitions. We want to be a developed country one day and we find it frustrating when unnecessary obstacles are placed in our way. We believe in free trade and fair competition.

43. In the ASEAN experience friendly competition and the willingness to learn from each other can contribute to good economic progress. Similarly we think that competition and willingness to learn among East Asian nations will achieve the same results. By extension fair competition and cooperation between Europe and East Asia will help everyone to prosper.

44. East Asia would never be protectionist even if Europe and America become protectionist. East Asia can compete. It has demonstrated this quite clearly. For instance in 1960 the combined GDP of East Asia was 42 per cent that of the EC, 23 per cent the size of the U.S. and 21 per cent the size of NAFTA. By 1990 the combined GDP of the East Asian countries was 67 per cent the size of the EC, 47 per cent the size of Western Europe, 73 per cent that of the U.S. and 64 per cent the size of NAFTA.

45. Intra East Asian trade has also grown in absolute terms and by percentage of world trade. It has done this without recourse to protectionism and despite the many obstructions placed in its way.

46. In the process it has improved the quality of life not only of its own people but of the poor peoples of the world.

47. The success of East Asian countries is not due to some magic. What Japan has done, other countries in East Asia, to a greater or lesser degree, have also been able to do. And by the same token the countries of Europe can also do.

48. The main ingredient of this success is the willingness to accept lower living standards when one cannot afford a higher one. East Asians are willing to do so. They should not be forced to have a higher living standards in order to nullify their competitive edge. Rather it is the Europeans who must question the wisdom of their ways and come to terms with reality. Then Europe and East Asia can cooperate for mutual benefit. But whatever the situation East Asia cannot be stopped. It has a right to develop itself.