

SPEECH BY: Dato' Seri Dr. Mahathir bin Mohamad
(Prime Minister)

EVENT: The Private Sector Salute to ASEAN Conference

VENUE: Petaling Jaya, Selangor Darul Ehsan

DATE: 13 Dec 1997

TIME:

1. I am delighted to have the opportunity to address such a distinguished audience at a conference commemorating ASEAN's 30th Anniversary. The conference is indeed timely. I wish to congratulate the organisers -- The Asian Strategy and Leadership Institute (ASLI) and the Brooker Group, Thailand with the support of the ASEAN Secretariat as well as the ASEAN Chamber of Commerce and Industry -- for holding this Private Sector Salute to ASEAN.

2. The Association of South East Asian Nations (ASEAN) has undergone tremendous changes and development for the past three decades. Our achievements are the result of hard work of both the government and private sectors. Without the latter economic development of the region would not have been as high as it is. Therefore, it is appropriate that today we gather for a meeting called 'A Private Sector Salute to ASEAN'. Let us utilise this conference to take stock of our achievements and setbacks as well as plan for greater success in the years to come. Let me acknowledge at the outset, that the success which we hope to achieve will only materialise if we -- the government and private sector -- continue to work closely together in harmony and single-mindedly for the betterment of the region.

3. ASEAN has come a long way since its founding in 1967. We started off with just five countries - Malaysia, Singapore, Thailand, Indonesia and the Philippines. In 1967, no one gave us much of a chance to succeed. South East Asia had by then undertaken two short-lived attempts at regional cooperation, first in 1959 with the formation of the Association of South East Asia (ASA) and then in 1966, MAPHILINDO, which grouped Malaysia, the Philippines and Indonesia. Politically, South East Asia was divided according to whose colony we once were. Thailand was of course never colonised. The Indo-China countries were either at war or faced various insurrections after decolonisation. Differences in ideology kept us apart and at times resulted in confrontations. There was a great deal of suspicion of each other made worse by conflicting territorial claims. We tended to align ourselves with one or the other of the two blocs in the bipolar world and their Cold War

strategies. The outlook then was indeed bleak.

4. Today, the situation is very different. In thirty years, ASEAN has evolved into the pivotal organisation in the Asia-Pacific region and is also the most successful regional organisation in the developing world. Although there still exist certain differences, challenges and conflicting claims, the region nonetheless enjoys unprecedented peace and stability as well as tremendous economic development. With a market of almost 500 million consumers, ASEAN is often considered as the gateway to the broader East Asian market. Although all of us are facing economic turmoil which has undermined our growth, our potential is still there. It is reasonable to expect us to recover and to forge ahead. We still have a not unreasonable hope to catch up with the developed West. The skills and the willingness are still there. The system and the game rule of a globalised world may not favour us now but we will learn to handle them in time and we will bounce back, possibly stronger than before. What we need to do now is to build up our internal strength, our organisation and our unity and then we will overcome.

5. Today we have almost made a reality of the aspiration of ASEAN's founding fathers by admitting Laos and Myanmar. We had hoped that Cambodia would have joined us by now and so complete the ASEAN dream. But that is not to be yet. We hope that it would not be too long before the whole of South East Asia belong to one group.

6. Many question the wisdom of our admitting countries which are so different in terms of ideology and economic system. I would like to point out that in 1967 when ASEAN was formed, the differences between the five founding members were more marked. Indeed they were almost at each other's throats. Suspicions between them were deeper. There were serious unsettled conflicts between them.

7. But they came together anyway and persisted in their attempts to find common grounds for cooperation. There is no reason to assume that the differences that the new ASEAN members present to the grouping cannot be handled by people who had already exhibited their skill at compromise and diplomacy. They will succeed, and they will succeed more quickly if they are left alone and their efforts are not subverted by outsiders.

8. The members of ASEAN have shown a distinct tendency to be flexible. They are not dogmatic and they are ever ready to learn and adopt strategies which had brought success to other members. It is no accident that all the ASEAN countries appear to progress uniformly towards

economic success. It is reasonable therefore to expect the new members to do the same and build a regional grouping of developing countries which will be second to none.

9. Today the ASEAN countries, in particular the more successful members are faced with economic turmoil. It would be wrong to say that their governments and their people, in particular their businessmen are completely blameless. There had been many abuses and malpractices, including of course large foreign borrowings and deficits in the balance of payment. These abuses on their own would have resulted in slowing down growth or even reversing it. But the devaluation of their currencies had precipitated matters, magnified the scale of their economic reversals, and caused financial turmoil. It had exposed and bankrupted not only the bad companies but it had rendered good companies non-viable. It had put banks and other financial institutions in danger and forced their closure. Indeed it had forced countries to borrow heavily from international agencies and obviously increase their debt burden.

10. It will be very many years before the economies of South East Asia regain some semblance of their past performance. Some say it will be a matter of months. Can it be so quick when we see that despite the loans they have taken, despite the stringent and prudent actions they have been forced to take, despite the dismissals and unemployment, the economy is not only not recovering but it is actually sliding further backwards? It is flattering to be told that we will recover quickly but proud independent countries would not surrender their economic and political freedom if recovery could be so easily managed. In any case can recovery be real if there is no sovereignty?

11. We in South East Asia should accept that we are poor now and the road to recovery is going to be long and hazardous. If we are going to make it, if we are going to shorten the time, we need to stay closely together. We have a need to develop an ASEAN - wide strategy for recovery. It is not going to be easy especially as we are no longer free agents. But there is still much that we can do together.

12. In the first place the good understanding and cooperation that the ASEAN private sector had developed with the Governments of ASEAN countries must be continued and enhanced. Whatever we may have to do to overcome our problems we will have to do together. We will of course not go against our undertakings to whatever international agencies we have committed ourselves to. But those undertakings will not paralyse

us completely.

13. Since all our currencies have been devalued to almost the same extent, the exchange rates between us have not changed much. We can therefore continue our trade with each other almost as we did before. Indeed we can expand our trade greatly, if our regional sources retain this competitiveness. It is up to us to do so.

14. AFTA can be reexamined in order to expedite and expand it. If AFTA is considered good during times of prosperity, cannot it be good or even better during times of stress? Much will depend on our ingenuity and our ASEAN spirit of unity and belief in mutual help. I feel quite sure that the devaluation of our currencies can facilitate trade between us. There are many things which we could not buy from each other before which should be competitive now if we keep our new exchange rates and the price of goods according to the domestic markets. We have discovered in Malaysia that palm oil, for example, is priced in US Dollars even for the local market and yet our costs are in devalued Ringgit. While we do not grudge the windfall profit our exporters get due to the devaluation of the Ringgit, we think that the domestic market should not be burdened by the extra profit which palm oil producers would get by selling in the domestic market at export prices.

15. I realise of course that palm oil is not something that we buy from each other. But supposing we adopt an AFTA pricing system it would be cheaper than edible oil imported from outside AFTA. And there are many products with the same marketing mechanism as palm oil.

16. Many economists assume that devaluation of a currency automatically result in increased competitiveness and windfall profits. This is not necessarily so. A lot of the exports of South East Asian countries have contents imported from countries with currencies which have appreciated against us, the United States for example. The imported contents reduce the cost advantage from devaluation. Freight and insurance also do the same, both inbound and outbound. A 40 percent depreciation would not give a 40 percent advantage.

17. If the product with imported contents is sold locally there will be a price increase. This increases the cost of living. There will be demands for wage increases which will increase local cost further. In the end the benefit from devaluation will be totally lost.

18. If we want to make AFTA worthwhile we have to guard

against the inflationary effect of devaluation. It is not impossible to do this. It requires a great deal of discipline among our people. But the result of the increase in trade between the countries of ASEAN will help cushion off the effects of devaluation and shorten our recovery period.

19. When Malaysia promoted a buy-Malaysia campaign we were accused of economic nationalism. It is not nationalism at all. When our currency is devalued effectively it makes imported goods dearer by the same percentage of the devaluation. To continue buying we will have to find more Ringgits to convert to the currency we have to pay for the imported goods. The Ringgit has depreciated by 45 percent. How do we find 45 percent more Ringgit to pay for the imports? Indeed in our present economic condition we cannot even find the amount of Ringgit we used to use to pay for the imported goods. We actually have less Ringgit now because business is bad and wealth is not being generated. So how can we buy the old amount of imported goods? What we can buy is much less than the percentage of depreciation of our currency. We are not being economically nationalistic. We are just unable to find the money to buy. You cannot impoverish us and then tell us to continue buying what you sell.

20. What is true of Malaysia is also true of all the other ASEAN countries who have suffered devaluation. But since relative to each other's currency the devaluation has not been so high, it follows that goods from ASEAN countries would be cheaper for ASEAN countries. Of course we would prefer to sell outside of ASEAN in hard currency and earn more foreign exchange. But where we can be competitive in each other's market we should buy ASEAN.

21. I am not advocating ASEAN economic regionalism. But the fact is that we have less money now and we should buy from the cheapest source. There should be no restriction to others entering our markets with their products but if their prices are higher we should not buy from them. As a last resort we could barter in order to increase our trade since we don't know when the pressure on our currencies will be lifted.

22. What I am suggesting does not negate market forces. Market forces demand that we buy the cheapest and the best. By taking advantage of the simultaneous devaluation of our currencies, the ASEAN countries can actually increase their trade with each other without keeping out other countries. That way we will help each other's economy to recover and hopefully to grow. When we are rich again and able to afford the imported goods and luxuries from outside ASEAN, we should do so.

Indeed we will be helping to restore world trade by working hard to recover quickly.

23. I would like to suggest that the private sector in all the ASEAN countries seriously examine this idea. Perhaps Governments too should examine it. We may reject it as a harebrained idea in the end but there is no harm in examining every possibility of restoring the health of our economy. We must always be prudent and correct but in business and in finance there have always been new ways of making money. We have lost our wealth largely because we have not understood what is going on in the big wide world outside. For 30 years we had developed our countries the old-fashioned way. We believed in hard work, in sweat, toil and tears. We believed that one good turn deserves another. We believe in cooperation between countries, within regions and between regions.

24. But during the 30 years concepts and ways of doing business have changed. With liberalisation, globalisation and market forces came herd instincts. We were caught unawares. And so we have to pay a price, a heavy price. But for the price that we paid we should at least get a few tips on how to manage if not a full lesson.

25. We know we have to accept what we cannot reject. We are doing our best now. What is not viable must be killed outright so the survivors can be free to consolidate their positions. People unnecessarily employed should be retired.

26. As a doctor who once practised surgery I appreciate the need to amputate gangrenous legs to save the rest of the body. What we have to do is surgical. And we will do it. We must reassure the world that we will carry out what we have undertaken to do, at whatever cost. We hope that in the end we will restore confidence and the wealth will flow back.

27. In the meantime we must nurse our Association, the ASEAN. On this 30th Anniversary we must renew our pledges and our commitment towards building a region of Peace and Freedom, and hopefully, Prosperity. We must stand together linking arms and bolstering each other's strength.

28. And our private sector must work closely with our public sector, in each country and in the region as the ASEAN entity. We had achieved so much in the past through our cooperation, through our constant consultation and through our strong support for each other. Now more than ever we need to continue that cooperation, consultation and support. What had stood

us in good stead in good times must now be made to stand in good stead in bad times. Some have accused us of the denial syndrome. The denial would be greater if we don't admit that we are facing a serious problem which can return us to our colonial past. The journey back will not take months as our admiring detractors smilingly assure us. It is going to take years and years of hard work and new cunning. But God-willing, we will return, battered, bruised but we will return.

29. The private sector has many reasons to salute ASEAN. Having saluted let us now put our heads together and work out the return to our past achievements.

FILE NAME: SP1312