

**SPEECH BY TUN DR MAHATHIR BIN MOHAMAD
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“Asia’s Role in a Tumultuous World - in Search of a New Growth Model”

1. I would like to thank NIKKEI Inc, the organisers of this Conference on the “Future of Asia” for this invitation to speak on “Asia’s Role in a Tumultuous World – In Search of a New Growth Model”.
2. Yes, we are living in a tumultuous world. But it must be obvious that the tumult is largely caused by America and Europe. Asia is considerably more stable and is doing relatively well. In fact much of the world’s economic growth is due to China, Korea, India and Southeast Asia.
3. Why so? Clearly something is wrong with the management of the finances and the economies of America and Europe. Asian countries seem to manage their economies and finances somewhat better. Despite the belief in contagion, in the economic disease of countries infecting others, the disease of the European countries has not spread that much to Asian countries. And this despite Asian countries being quite dependent on the Europeans and Americans for ideas, systems and ideologies.
4. Western countries, the proponents of capitalism and the free market are in trouble because of trying to live in the style they were used to when their empires straddled the world, when the world’s needs of manufactured products were met by them exclusively, when they had a monopoly of trade and shipping.
5. After WWII the Eastern countries industrialised and began to push Western manufactured goods off the world markets. Eastern manufacturers achieved high quality at low cost. Unable to compete, the West retreated into the financial markets. They invented new financial products which could give easy money to them and so sustain their growth. Their GDP and per capita income continued to grow and they appeared to be doing well.
6. Convinced that the financial business was the answer to their ouster from the manufactured goods markets, they continued their profligate ways. They kept on increasing wages which were already high despite low productivity, gave themselves more holidays, award big bonuses irrespective of profits, at times doubling the pay; they awarded generous pensions and early retirement, shorter working hours, unemployment and medical benefits and various other perks. All these increased their costs and render their products even less competitive. But they appear to be doing well and continued to indulge in high-spending and a high standard of living.

7. The value of the companies reflects neither their assets nor their profitability. Yet they are acquired at many times their value or are merged. Leveraging enabled huge sums to be paid for these acquisitions. Business is no longer about producing and selling goods but is about buying and selling companies and corporations.

8. In the financial markets all kinds of products were created, designed for easy profits. Short-selling which started with shares was expanded into commodities and currencies. Banks gave out much more loans than warranted by their capital and deposits. Loans totalling billions were given indiscriminately including to clients with no capacity to pay back. These loans were bundled and placed with mortgage and insurance companies to "secure" them.

9. Leveraging also enabled hedge funds to borrow and invest huge sums of money, sometimes as much as 30 times the amount invested with them. Liquidity seemed limitless and vast amounts of money seem available. Currency trading for example are said to total four trillion dollars a day, equal to Germany's total productivity in one year.

10. All kinds of risks were sold for high returns. The products were so mysterious that investors know very little about them or how the hedge funds make money and give such high returns.

11. The belief in banks and funds being too big to fail assured investors and players that they would not fail. The Government just could not allow them to fail as their failure would drag the whole economy and finances of the country down.

12. The poorer Western countries also tried to live in grand style like those who were well-off. They borrowed huge sums of money to finance their deficits. Eventually they defaulted and rescue operations had to be mounted to save them from bankruptcy.

13. All these financial businesses create practically no jobs, hardly any spin-offs into small businesses, no trading of goods and no requirement for transportation. All that happens is that figures in bank books move from one account to another, electronically.

14. But eventually what was believed to be too big to fail, suddenly failed. It appeared to begin with the sub-prime loans but the other financial businesses were also beginning to fail, except that criminal cover-ups delayed the collapse.

15. All this while the West remained hooked on the idea, of military power and world hegemony. They have not noticed that victors in war do not prosper, that victories are hollow as occupying troops fail to police the vanquished.

16. With the development of long range missiles, expansive foreign bases give no advantage. The trillions spent on research, development and deployment of new weapons adds to the financial deficits in the West. Yet in most instances these weapons, including arsenals of nuclear warheads cannot be used.

17. And so the West plunged into a financial crisis of an unprecedented scale.

18. Although in Asia a few countries tried to indulge in financial gambling, by and large they stick to the real business of producing and selling goods, and supplying needed services. As a result, they are much less affected by the crisis facing the world today. All that affected them is the loss of much of the lucrative markets in America and Europe.

19. What then should be the role of Asia? Basically it is to prove that financial market gambling is counter-productive, that the money earned is not real, that sooner rather than later the system will collapse with disastrous consequences. To prove that the Asian model is more positive, Asian countries must work more closely together. The cooperation should not take the form of a union like the European Union. It should, at least initially, form a loose economic community wherein the countries help each other to prosper. While it should not have an Asian currency common for all countries like the Euro, it should have a stable trading currency with which all trading should be transacted. The goods should be valued and priced in this trading currency in order to increase intra-Asian trade. The community should also meet to tackle disputes and to formulate a common approach in dealing with the structure and practises for international trade. It should also help to reduce tensions between members.

20. Malaysia had learnt much from Japan and South Korea under the Look East Policy. It is the creed and work ethics of Asia which contribute most towards growth and development. Asia should therefore promote the Asian system and work ethics to Asian countries and the world.

21. One lesson that Japan can contribute is foreswearing war as a solution to conflicts. War is about killing people and killing people is a crime. War is a rather primitive way to settle disputes or to promote national policies. Modern wars invariably fail to attain the objectives they are fought. The idea of a war to end wars is sheer nonsense. Nor is humanitarian war logical. It is in fact a contradiction in terms. In the promotion of Asian systems and ideas, the route should be through negotiation, arbitration and resort to a court of law. Forcing acceptance of any system however good must never be allowed. Certainly wars to promote ideologies or systems should be outlawed.

22. Asia should lead the world in the peaceful settlement of disputes. Confrontations, encirclements and belligerent policies such as sanctions should

be avoided at all cost. We should learn from the mistakes of history but we should not allow historical enmities to undermine peaceful cooperation.

23. Growth cannot be attained by economic measures alone. Peace and stability will be needed. So will a good monetary and financial system. It is time that Asia takes the initiative to convene a new Bretton Woods to devise a new monetary and financial system. It is time Asia backs a democratic United Nations.

24. Clearly Asia initiative can play a leading role in the shaping of a new model of economic and political system for prospering the world. We should not seek absolute uniformity. Suffice if general principles are adopted by all.

25. Now all that is needed is the Asian will.
