

KEYNOTE ADDRESS
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I am very pleased to be able to address this Congress today, just as it was my privilege to speak to the Second Congress in 2004. I consider this gathering of eminent thinkers to be a substantive part of East Asia community building efforts. Let me therefore contribute some of my own thoughts regarding "Strategic Issues, Critical Imperatives", which is the theme of this Congress.

I have spoken on many occasions about the politics of East Asia Community Building. I thought it might be useful if I focus today on the economics of East Asia Community Building. And in this regard, I must immediately point out that the critical issue appears to centre upon the problem of what I would describe as gross over-ambition by some countries, while some others suffer from negligent under-ambition.

The over-ambition countries try to advance their interests in ways that are questionable and which exceed their capabilities. They often do great damage not only to themselves but to others as well. On the other hand, the under-ambition countries fail to do enough to improve their well-being even when it is within their means to do so. Their indecisiveness and inaction lead to missed opportunities and the results can be equally disastrous.

East Asian countries cannot be accused of gross over-ambition. None of them, I think, espouse hegemony or seek to impose their will on others. In fact, I strongly believe that East Asia's problem is one of under-ambition. That is to say, East Asian countries are not doing enough with the resources and opportunities they have to reinforce the environment for peace, security and prosperity. In the past, we had to beg or borrow the resources we needed to raise our standards of development. Our fortunes were almost entirely dependent on others. We had to rely on the generosity of bilateral and multilateral sources of hard currencies. Today, this dependence on official sources is much reduced. In fact, East Asia now possesses resources and opportunities aplenty.

East Asian countries took the first step in their own transformation when they opened themselves up to trade and foreign investment. Their assumption of the role of low cost producers brought immediate but limited benefits. The second step up was to focus on technology and knowledge intensive foreign investments as a way of moving up the value chain. Malaysia is now at this stage. China has declared its intention to do the same. Of course, Japan and South Korea had

already been there much earlier. The third phase, and one that can be taken simultaneously, is to harness the energies and talents of domestic economic agents of change. One economic analyst recently referred to this potential as “Asia’s flowering”. I would agree with that. Asia is indeed flowering because there has been a shift of emphasis from the state to the individual.

East Asian governments have, on the whole, shown readiness to reform economic and social policies and strengthen institutional mechanisms. Governments are addressing many issues in this respect, though some have done better than others. Apart from liberalising trade and investment, they plan, finance and implement physical infrastructure. The banking and finance sector is being modernised and strengthened to ensure proper funds intermediation. Human resource development is given high priority. Prudent macroeconomic management is practiced. Asset prices have been controlled so that they do not threaten the foundations of economic and social stability. Currencies are prevented from rising too fast and too much. Savings at home and abroad are invested in assets that are both high-yield and resilient. These are all very demanding tasks but, I can assure you, infinitely more pleasant than those of managing a full-blown crisis.

By all accounts, we have done quite well for ourselves. Our economic growth rates, levels of foreign reserves and rise in stock market capitalisation testify to this. Nevertheless, our efforts are far from complete. Most of us are only midway through the journey and some have just recently started. Unfortunately, a few have yet to start, and are therefore running the risk of being marginalised. It is imperative that East Asian countries do not hesitate at this crucial juncture. It is critical for us to ensure that reforms go wider and deeper so that economic transformations remain effective and entrenched. We must not merely harvest the “low hanging fruits”. We must persist with those that are higher and more difficult to reach but are as rewarding, if not more.

Our reforms must also be more comprehensive. We should seek to protect human rights, discharge human responsibilities, promote political engagement, encourage civil society participation and, most of all, instill a very strong sense of social cohesion. Equally critical is the need to maintain and enhance the rule of law. We must constantly monitor governance systems in order to root out corruption and abuse of power at all levels. Efforts must also be made to mitigate and eliminate all forms of national and trans-national environmental pollution. Economies must grow but not at the expense of the long-term well-being of our peoples.

We should do all these because they are morally correct. But, more importantly, we should do them because they facilitate economic progress. They help us rid ourselves of unproductive systems and practices that sap our strength and undermine our economic and social welfare. A transparent and liberal

environment enables businessmen to pursue economic activities more diligently, logically and innovatively. Liberalism allows for the participation of the masses instead of only the privileged few. Corruption must be eliminated because they encourage the abuse of power, erode trust in governmental authority and destroy institutions. In extreme situations, corruption will perpetuate crime and disorder. We must learn the lessons of failed states, which are invariably politically bankrupt, economically corrupt, socially fragmented and generally lawless.

If our efforts at restructuring our economies are not intensified, there is a very real danger that momentum will be lost. Fortunately, the prospects are encouraging. Despite the oil price increase, which could have easily pushed us all into a period of slow economic growth and high inflation, the world economy has continued to show remarkable strength and resilience. In fact, the recent easing of oil prices has reduced fears of near-term inflation and contained rising world interest rates. Fears about a possible crash of the United States economy have subsided. The global dollar-driven liquidity continues to fuel economic expansion. Even the remote parts of sub-Sahara Africa are receiving a stream of private capital, something completely unthinkable just a few years ago.

However, the way ahead is not all sweetness and brightness. The global saving-investment imbalance is not being corrected to any significant extent. It may even be getting wider. This should be enough reason for concern. Until the elements are in place for a coordinated and long-term resolution, the global macro-economy will continue to be a dangerous place and economic growth prospects will remain risky.

The temptation to lay the blame on the doorstep of exporting countries will continue to be strong. Discriminative policies and exchange rate mechanisms will continue to be used to correct trade deficits. Protectionism will be defended as “fair trade”, “rules-based trade” or the need to create a “level-playing field”. But all these cannot disguise the fact that they are meant to stop imports and keep jobs.

The failure of countries to conclude the Doha Development Round of multilateral trade negotiations in July this year was an ominous sign. Let us hope that good sense will continue to prevail. Last month, the APEC Summit in Hanoi urged for an “ambitious and overall balanced outcome” of the Doha round. We must persevere in this quest.

As if the economic risks going forward were not enough, pressures to realign East Asian exchange rates to resolve the global imbalance are also of great concern. East Asia knows well the tremendous chaos that currency movements, compounded by speculation, can inflict on economies. Eminent economic thinkers on both sides of the Pacific agree that the exclusive focus on exchange rates will not solve the problem. No one gains by triggering another bout of economic recession in East Asia.

For its part, East Asia does not benefit from hoarding ever more foreign reserves. It is highly inefficient and costly to do so. It is especially undesirable when there are much better mechanisms to defend against speculative attacks, for example the bilateral currency swap agreements. Our countries should instead seek to wisely and responsibly spend more on infrastructure and human capital development. Human welfare must be the key concern of our region. Investments must be placed where the highest economic and social rates of return are earned and where the greatest private sector participation can be secured.

When we speak of East Asia community building, the underlying objective must always be the improvement of the quality of life of our peoples. The increase in the flow of trade, investment and labour have undoubtedly contributed towards this purpose. But there is much more that can be done for instance, the attainment of the U.N. Millennium Development Goals by the year 2015 should be incorporated as one of the fundamental purposes of East Asia community building.

Ladies and gentlemen

In my view, as I have said earlier, our under-ambition is one of the main factors behind the unsatisfactory condition of East Asian inter-state relations. In recent times, we have witnessed public recriminations, violent mass demonstrations and hostile saber rattling. Greater restraint and moderation in the conduct of our relations with one another would certainly do well for the cause of community building in East Asia.

It is most unfortunate that there is still a great deal of misunderstanding about East Asia community building. Some are deliberately created. It is therefore very important for forums such as this East Asia Congress to openly and effectively address the issues of concern. What is not understood is feared. What is feared is most often opposed. The question of who should be included and who should be excluded continue to be asked. We cannot seek to be continually moving the boundaries of consensus and agreement. Community building and regional cooperation cannot proceed smoothly in such an environment.

There has been quite a clear understanding that the ASEAN-Plus-Three process is to be the driving force in regional efforts for community building. It has been equally made clear that the East Asia Summit process is a forum for strategic dialogue and would play a supporting role in community building, just as the ASEAN-Plus-One process would do. It is not, and it has never been, a question of "either-or". It has always been about a plurality of dialogue processes, each with its own define task and complementing one another. This is quite clearly the best way of taking into account the diverse perspectives and different interests of the East Asian countries.

I have to emphasise these points because there is, until today, an endless and unproductive debate about which process should be elevated or who should be included in what. We run the risk of increasing the competition for spheres of influence and factionalising the region. This would be harmful to community building, and the region would be deprived of peace and prosperity.

We should not fear addressing sensitive regional issues but we should do so with sensitivity. I hope this is the basis on which you will conduct your deliberations. I say so because I believe this is also the basis on which you can succeed. Obviously, I wish you success in your deliberations. I want to commend ISIS Malaysia for organising this important annual event. And I now take pleasure in declaring this congress officially open.