KEYNOTE SESSION SUMMARY

Thursday, October 1st, 1998
5:00pm - 6:00pm

"The Global Economy and Regional Integration"

Hosted by:
Federal Express Corporation

Introduced by: Laurie Tucker
Senior Vice President,
Logistics and Electronic Commerce
Federal Express Corporation

Session Chair & Moderator:
George Muñoz
President and CEO
Overseas Private Investment Corporation (OPIC)

Session Speakers:
Phil Condit
Chairman & CEO
The Boeing Company

Henry Kissinger
former U.S. Secretary of State

H.E. Minister Bambang Subianto
Minister of Finance, INDONESIA
Henry Kissinger: I have been asked to speak for ten minutes which will enable all of you to say that you were present at an historic occasion. In fact, my native language being German, I can go for ten minutes without placing a verb.

Let me talk about some of the problems of globalization that I see at this moment. There is no doubt that globalization and market economies have proved the most effective way of raising the standard of living, enabling societies to progress into the modern period, and to produce the greatest benefit for the largest number of people. It is also true that the crisis through which we are now living has, in part, been accelerated by some of the aspects of globalization that now exists and which I believe must be taken seriously into account if progress is to continue and if globalization itself is to continue.

The extreme proponent of globalization speaks of the world as if it were only one market in which the only criterion is efficiency and in which dislocations have to be borne as one of the consequences of this single market and borne for an indefinite period of time. But the fact of the matter is that the world is divided into political units. These political units have their own standards of value and that political leaders are judged by their ability to produce well-being for the societies for which they are responsible. It is not possible to keep telling the countries that they must endure austerity for an indefinite period of time so that bank lending can start again. The process 3, 4 or 5 years down the road may again begin where it left off. That is a simplistic view of the way the world operates.

Secondly, it is essential that we get a better grip on what the elements of globalization really are. The distinguished minister from Indonesia who is here and whose country has suffered enormous degradation from the international assistance over the last year will remember that a little more than a year ago, the World Bank published a report praising Indonesia for its excellent management of its economy and the progress it had made. So the crisis through which these countries lived in Southeast Asia and Asia were not all that predictable and were in fact not predicted. In fact, for all the standards of the period of fiscal prudence like lower rates of inflation and privatization, the countries of Asia almost uniformly did rather well. What triggered the crisis were currency problems caused by the increase in the value of the dollar, the decrease in the value of the yen, the devaluation of the Chinese currency and the linking of their currencies to the dollar which
produce an enormous premium on speculation. That is what started it. I do not want to go through the whole history, but I want to stress certain weaknesses of the system that in my view have to be not addressed.

One, is the element of speculation must somehow be separated from the element of investment and some means must be found to put a limit on it or to at least get a grip on understanding it. When Phil Condit plays his part of his operation abroad he has to be a good citizen of the country where he operates. His well being is dependent on the well being of his customers because that is the essence of direct investment. Speculators can make money whether the market is going up or whether the market is going down. In truth, what they cannot stand is a stable market. So, this element of speculation, the enormous resources that are available, the speed with which these resources can be deployed, is a problem in a globalized economy which will wreck it, if no means are found to deal with it.

The second has to do with remedial measures that are taken when a crisis occurs. I am no economic expert and I am sure there are people in the audience who will happily certify this, but I do believe that when economic remedies are proposed to countries in trouble, a number of things have to be kept in mind. First of all, world culture is not uniform and there has to be some relationship to what societies can understand and handle. Secondly, there is a time limit that is appropriate within which certain changes can take place and these time limits cannot all be compressed into one single reform package. Third, sacrilegious as it may appear, we have been around only 200 years and some societies have been around longer. It is not self evident to everybody that every solution has to follow the precise American model.

I feel we have overtaxed the political system of many countries by the reform packages that have been proposed to them and that there has been an inadequate understanding of the connection between the political feasibility and the economic feasibility. I frankly believe that in some countries in Asia that has driven what was a currency crisis into an economic crisis and an economic crisis into a political crisis. I do not say this as a criticism of people who have worked with great devotion; I have tremendous admiration for Secretary Rubin and very high regard for his deputy.

But to keep all these matters together is a very important aspect and if we do not succeed in doing so, we will find the global economic system under the...
sort of attack as in the 19th century when its successors were not properly understood.

I want to make one last comment about a very important point that Phil Condit made, which was how the world is interconnected with computers. That is absolutely true, but there is another element that we have to keep in mind. Those of us from the ancient generations were brought up on books and who are very clumsy with computers. We were brought up that learning is difficult and that you have to struggle to come to an understanding of difficult problems. The computer generation just evoke any answer. They do not have to learn anything. All they have to know is how to ask a question and the answers are spewed forth in enormous quantity.

I had a secretary once whom I said get me George Shultz on the phone. She had never heard of George Shultz. I blew my top... pages on George Shultz. Now she knew more about George Shultz than I did. But my point is that she did not really know him. She had a surface knowledge, which gets me back to my original problem. We have gotten very good at dealing with short term technical problems. We amass masses of information and evoke all kinds of technical solutions but we are losing the ability for the long term perspective and for the tolerances of societies. The fact that history has its own reason of moving...

I think all of us who are dedicated to globalization and who have been watching this crisis have to understand that it started as a currency crisis, it is turning into a political crisis and the longer it lasts and the less it is understood the more serious the challenge becomes. This is a philosophical challenge that globalization now puts before us.

Questions & Answers

This is a question for any member of the panel: If integration was difficult to sell to the American public for fast track and the Americas, how can we expect other countries to sell reform and integration to their countries when they also have to extract pain?

Phil Condit:

I think the expression, "Necessity is the mother of invention," plays a significant role here. It is not that there is some grand plan that says we ought
to go get integrated, but much rather the fact that we are becoming, whether we like it or not, more integrated and we are seeking ways to do it. Henry’s point is that you cannot go ask somebody to take four years of pain for the pleasure of being integrated. It is rather that we are in living in that world and just like any corporation you deal with the changing world.

George Muñoz:
Should the US approve the current IMF replenishment of $18 billion?

Henry Kissinger:
I have signed several letters urging replenishment. I am glad they have not brought me any lately. I am very uneasy. I do not agree with the method that the IMF has proceeded in Indonesia and in most countries of Southeast Asia. I would make any replenishment conditional on adding a political component to these programs and a better understanding of how to achieve this. I think it is very dangerous to have economists loose on delicate political structures and allow them to make severe revisions.

I am not an expert on Indonesia, but it seems to me that when you go into a country and close 15 banks in the middle of a crisis you must not be surprised if a run on all other banks starts. If you cut off subsidies for oil, fuel and food, countries in which one minority has a disproportionate influence economically and then you get riots aimed at these minorities and more money leaves the countries you have not shown excessive understanding of the situation.

Every instinct is to be an all out supporter of IMF replenishment, but I would like to see some funds returned now to keep it from running out and tie the remainder to some serious study of the revision of its purposes and perhaps return it to its original purposes and create other institutions for dealing with this crisis.

Phil Condit:
I think Henry has put it well. We have a current situation that does need to be dealt with. One of the few mechanisms we have right now is the IMF. However, I think there is broad agreement that there are some major reforms that are necessary. We need to both deal with the short term reality which argues for replenishment, but also for reform.
George Muñoz:
This question is for Dr. Kissinger. What is your assessment of the situation in Russia?

Henry Kissinger:
In Indonesia we emphasize economics over politics. In Russia we emphasize politics over economics. It has managed to work itself into a crisis. One of the difficulties has been that is an American tendency of looking at every foreign country as if they were misunderstood Americans. People keep talking about democracy in Russia and markets in Russia and congratulating them on their democracy and markets and the fact is, there is no democracy in Russia. Yeltsin, when he governed, governed by decree. The market is a very complex thing that has very little to do with free market. I think the biggest challenge in Russia now is the political evolution. Reasonable analysts and reasonable policy planners have to look at what is likely to happen and not some abstract theories they have developed. I believe, over time, they will develop more constitutional forms, but I do not think that Russia, in a very short period of time, is going to have our kind of democratic institutions, because you can see the parties that are gaining in strength in Russia are the Communists and the Nationalists. People who used to identify with reforms are small minorities right now.

George Muñoz:
The next question is for Minister Subianto: Are exchange rate controls necessary? What is key for Indonesia to do now in its crisis? Should it lower interest rates, should it revamp the banking sector?

Minister Subianto:
I do not think we are going to have control over the exchange rates. Of course we have to monitor the development in different parts of the world. What is important to do this time is to have banking reform. At the same time we need to restructure the borrowers of the banks. In this process, one of the key factors is the lowering of the interest rate. So far, the development in the last couple of weeks has shown some positive indication that the interest rate has gone down and at the same time the rupia rate has also been strengthening. So we expect in due course, in the coming weeks and months, the interest rate will be in a more favorable direction.
George Muñoz:
Question for Dr. Kissinger and Dr. Condit: Do you believe the world is suffering from over capacity? If so, how can the situation be remedied?

Phil Condit:
One makes an assumption of over capacity of what? Let me speak from my particular battle. Air transportation over capacity? We have actually seen on a worldwide basis much more restraint than we have ever seen during previous economic cycles. There has been less unbridled enthusiasm and therefore over ordering which leads to over capacity. In extending that a little bit further to the economic capability of the world, I would argue very strongly that on a long term basis when you take into account countries like China, India and Indonesia, as we bring them up in their standard of living, the capacity requirements of the world’s manufacturing and production systems are far from being over capacity for that long term demand. There will always be short term issues but on a long term basis, no.

George Muñoz:
Who can implement a strategic vision globally—Germany, France, US, Great Britain? Which leaders?

Henry Kissinger:
I think we are suffering from a global lack of political vision. Partly for the reason that I gave at the end of my presentation. In most societies, getting into office is so time consuming and has so little to do with what is required to run the office, that there is no adequate preparation any more for the act of governance. The great leaders are the ones who moved the society from where it was to where it had never been. Our political process today, and the same is true in almost all countries, puts more of a premium on getting into office than in exercising the office. I do not know what the solution to that problem is but I often say, when I started in politics as an advisor, people asked me what to think. Now if they ask me anything, they ask me what to say. There is a different level of concern. But if you put everything together, the country that is in the best position to develop a vision is still the United States. We have the resources, the education system, an optimistic people who believe that problems can be solved. So when everything is said and done I still hope that the United States will give the impetus to what we need.
George Muñoz:

Minister Subianto, please comment on the current political situation in Indonesia. Do you see a stabilization or continued chaos and maybe even violence? Will the elections be accelerated?

Minister Subianto:

This is not my field, but I will try. The latest news is the PTI Congress will be held in Bali. The approval for the Congress has already been granted. So it seems to be an optimism that things are going toward more stability. Regarding the elections, that will depend on the schedule that we have set in November for the fundamental people's assembly.

George Muñoz:

This question is for Mr. Kissinger and Mr. Munoz. What is the likelihood of Fast Track approval next year? Will the free trade agreement of the Americas become a reality within the time frame set in the Summit of the Americas? If the Brazilian economy goes through a major economic crisis after the election would there be any reason to push for free trade of the Americas forward?

Henry Kissinger:

I strongly favor the Fast Track. I think we have wasted too much time in not fighting that battle. It is essential for carrying out the policies in Latin America that the President has proclaimed. If it does not happen, we will find that part of the world will organize itself without our participation. So I hope the Fast Track will be approved and energetically used.

George Muñoz:

From OPIC's perspective, since we are in the business of promoting development and investment overseas, we do look very favorably on the free trade agreement and we would support Fast Track. We think that now it is even more important. Symbolically it will show continuation in terms of taking the right steps towards globalization. Substantively it has elements of standardization which I think all speakers of the panel have addressed. It is important that those standards be understood for global investments to take place. Given the vote that took place recently and some of the comments, it looks pretty favorable that the bill will come back up and we expect it will pass.
George Muñoz:
The next question is for Dr. Kissinger. What is your view on the
deterioration of the institution of the U.S. presidency and the effect on the
current world emerging market and economic malaise?

Henry Kissinger:
I have gotten through seven months without commenting on this situation.

George Muñoz:
When will the third world war be fought and who will be fighting whom?

Henry Kissinger:
I do not think there is any likelihood of a general third world war. There has
been one very important historical change. Even as late as World War II one
could imagine that the consequences of war were less severe than whatever
the issues were. But right now I see almost nothing that a country can gain
by a war of aggression. We have seen in the post-World War II period how
countries with no natural resources at all have been able to achieve
very substantial economies. So the old idea that you need to expand your
territory in order to increase your national power is really not true. By
organizing your population and giving it a sense of direction and encouraging
scientific discovery that gives you infinitely more power than wars of
aggression would. I can imagine that wars can occur, for example, through
the sudden collapse of North Korea, or through misunderstandings in the
nuclear balance in various parts of the world. But a third world war the way
we have known it, I do not consider likely.

I would not look with equanimity on the emergence of an authoritarian regime
in Russia. I think in fact that the area of the country in which we should exercise influence for political reform above all is Russia because it is the
precondition of really effective cooperation. What I was describing are the
trends that now prevail in Russia that we should describe accurately. Those
trends, now barring the substantial efforts to change them will lead to an
authoritarian regime.

George Muñoz:
On the high note that there will be no third world war, let's end here.