

An Open Letter to ASEAN Heads of State
20th November 2015

Your Excellencies, the Honourable Heads of Government of ASEAN Nations, welcome to Malaysia. We in the Parti Sosialis Malaysia wish you have a pleasant and productive summit. We hope it would not be too presumptuous of us to put forward a few observations and suggestions that have a bearing on the main topic of your Summit which we are told is about creating an inclusive ASEAN that brings benefits to all its citizens especially those in the poorer half of our populations.

The first point that we would like to put forward, is that the “export led” economic growth model has been superseded by developments in the global economy. Manufacturing jobs have translocated from the advanced Western countries to East Asia and to ASEAN, “hollowing out” the middle classes in the advanced countries of the West. Growth of aggregate demand in the US and the Euro zone has become sluggish and will remain so for the foreseeable future. The strategy of producing cheaply, and competing for the US and European market will not work any more.

We need a change of tactics. We need to generate aggregate demand within our own region – in East Asia, in the ASEAN region as well as in the rest of Asia. Only then will our industries have markets and our people jobs. A major component of aggregate demand is the purchasing power in the hands of our own citizens. Obviously if their wages remain low, they will not contribute much to our domestic aggregate demand. We need to raise wages of our workers. But we immediately run into a problem here. For if one of the ASEAN countries unilaterally raises its minimum wage significantly, it runs the risk of losing new FDI to its neighbor. Further, it runs the risk that imports from other ASEAN countries might win over part of the domestic market share of its own factories. So investment, economic growth and job creation may all be jeopardized.

This is where the ASEAN community comes in. If all ASEAN member states agree to raise minimum wages by 10% from their current levels and do this annually for the next 10 years in all the ASEAN countries, then none of us will be in disadvantageous position with regard to attracting FDI or in losing market share of our own markets. And aggregate demand would grow, expanding the market for our manufacturers. It would really be a win-win-win situation – one where even the bottom 40% of our populations will also benefit.

Another important component of aggregate demand is purchases by the government. In Malaysia this is about 20% of the GDP. If we want this component to go up, then obviously we

need to increase government revenue. Taking from the consumers via a tax like the GST will not grow the aggregate demand because the GST reduces the purchasing power of the population. It would be akin to taking from the left pocket to put into the right! So the increase of Government revenue has to come from increasing Corporate Taxes. Here again we come up with the risk of capital flight. If one ASEAN country embarks on this alone, then the large businesses might translocate to a neighbouring country with lower corporate tax rates. Here again, the ASEAN community can work together to circumvent this possibility. What if all ASEAN countries agree to raise corporate taxes by 1% per year for the next 10 years. That would not put any of us in a comparative disadvantaged position.

How can this be enforced? We suggest - through Trade Sanctions – raising tariffs against the imports of countries that do not cooperate. Hold on, we know that protectionism is a dirty word in today's globalised economy. But consider this - let's say countries A, B and C implement the 2 measures suggested above (progressively increasing minimum wage and corporate taxes) the aggregate demand in these countries will grow at a faster rate providing greater market opportunities for all ASEAN countries (because the tariff levels for intra-ASEAN trade is currently close to zero) including country D and E which did not implement the 2 measures. In fact D and E would in a situation where their products, being relatively cheaper now, might be able to get larger market share in A, B and C. Is it fair that A, B and C grow the aggregate demand while D and E benefit from being "selfish"?

We hope, Your Excellencies will consider this suggestion. We really believe that this is one of the things our region has to do to escape the "Middle Income Trap" that we are stuck in.

The PSM has one other issue that we would like to raise before signing off – the handling of refugees. We can vouch that many Malaysian felt very bad when several countries shoed off desperate Rohingya boat refugees in the first quarter of this year – the Rohingya families were given fuel and some food and asked to go elsewhere. We are sure that many citizens in other ASEAN countries too felt that this was inhumane and irresponsible of the governments concerned. Surely this ASEAN Summit is a good opportunity to agree on a more humane approach to any future refugee problems based on collective responsibility of all ASEAN members.

Can we agree that whichever ASEAN country the refugees land in, the ASEAN community will help out by apportioning responsibility for the refugees based on our respective GDPs. Obviously the richer countries among us can and should contribute more. Countries with small land areas but big GDPs (Singapore and Brunei) should be given the option of providing the funds for resettlement and caring for the refugees so that another ASEAN country with more

land can actually house the refugees apportioned to Singapore and Brunei. The details have to be worked out.

A last point regarding refugees. Giving them a place to stay isn't quite enough. They must be given the chance to work. In Malaysia they currently have to work illegally as our government does not give them work permits to work officially. Working illegally exposes them to abuse and bullying by unscrupulous bosses. Who can they complain to as they are working "illegally" in the first place? The PSM has heard that this same unenlightened policy is in place in other ASEAN countries as well. We hope Your Excellencies will use this Summit to set this issue right.

Thank you Your Excellencies for reading this far (if you are still with us!). We hope you have a fruitful set of discussions and that you will be able to include the issues raised in this letter in your deliberations.

In support of a People-Centred ASEAN!

Sincerely,

Jeyakumar Devaraj
On behalf of PSM