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## Globalization and the Knowledge Economy: Perspectives for Malaysia

Edited by

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## Preface

This book presents selected papers from two conferences that marked the occasion of both the 15<sup>th</sup> anniversary of the Malaysian Institute of Economic Research (MIER) and the successful conclusion of the Canadian International Development Agency (CIDA) funded partnership between MIER and John Deutsch International of Queen's University. The annual National Economic Outlook Conference was held on November 20-22, 2000, and the Conference on Globalization and the Knowledge Economy on January 30-31, 2001.

### Outline of the Book

The papers chosen for this volume deal with key issues faced by Malaysia in confronting the twin phenomena of globalization and the emergence of the "knowledge-based economy." While these terms can convey many different meanings and connotations, there is no doubt that they are closely related and that the policy challenges they create are of critical importance to Malaysia at this stage in its socio-economic development.

Globalization arises in large part from rapid changes in the speed and in the manner in which ideas and information can be transmitted around the world. These changes have led to quantum leaps in the degree of integration of markets for goods, services, financial capital, and for knowledge itself. This has required rapid adaptations in international institutions and has presented corresponding and arguably even greater challenges for sovereign national governments. The opportunities this has created for individual countries are great, as are the corresponding risks.

Countries like Malaysia that have grasped the opportunities and challenges of participating in rapidly expanding and evolving global markets have brought great developmental benefits to their citizens. Malaysia's growth over the past quarter century of integration with the global economy has been among the highest in the world. Citizens in countries that have been more reluctant to participate have fared more poorly.

In this era of rapid change, the policy challenges are never-ending. For some countries the challenge is to make up ground that has been lost. For those like Malaysia it is to keep up with expectations based on past performance. The papers in this volume deal with some of the challenges faced by Malaysia and other countries.

The papers have been grouped under four main headings. Part 1 presents an overview of the knowledge-based economy, discussing some of the major economic meanings and implications of the growth of the knowledge-

based economy, setting a background and framework for the particular policy areas that are discussed in subsequent parts.

Part 2 focuses on challenges of macroeconomic management for open economies in a globalized world economy. Both papers in this section deal with issues related to exchange rate management (or choice of exchange rate regimes) and monetary interdependence and cooperation. The issues discussed are of immediate importance to Malaysia and are also relevant to longer-term issues of domestic, regional and global financial architecture. Kawai explores the roles of different currencies in East Asian financial arrangements and the implications and prospects for increased regional monetary cooperation. Ariff looks at the particular case of Malaysia and explores the options available for Malaysian exchange rate policies. It is worth mentioning that the discussions that arose from these papers at the NEOF were particularly helpful in sorting truth from fiction in the vigorous policy debates over Malaysia's macroeconomic management during the recent Asian financial crisis.

Part 3 presents four papers related to the "real" side of trade and tax policies in a global economy. Harris provides some analytical explorations of likely impacts of the spread of new general-purpose technologies that characterize the knowledge-based economy and reviews in particular some of the implications of regional trading arrangements in this context. Flatters and Boadway examine the impacts of globalization on the design of trade and tax policies respectively, concluding that many of the basic lessons of trade and tax policy are not fundamentally altered by globalization, but that the stakes involved in getting policies right (or wrong) have almost certainly increased. Jenkins examines some particular issues related to measuring the economic cost of foreign finance in the face of variable country risk and when foreign supplies of finance are less than perfectly elastic.

Part 4 reviews some of the broader implications of globalization for the environment, for cultural industries and for the more general development of the service sector. Olewiler confronts the contention that globalization is bad for the environment and shows that the hypothesis is not supported by empirical evidence. Maule examines some of the difficult issues that arise, domestically and internationally, in trying to protect cultural industries in a global economy, casting doubts on both the desirability and the possibility of doing so. Syarisa focuses on the key role of service industries in sustaining and supporting growth in an integrated international economy, and argues that a globally competitive service sector will be increasingly important for Malaysia's future growth.

### **Independent Policy Research and the Knowledge Economy**

MIER was set up with the goal of becoming Malaysia's premier think tank in the area of economic policy. In this sense, it was designed to play a key role in Malaysia's "knowledge economy."