

# We enjoy an edge

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**D**EVELOPING countries have very few advantages when competing with the developed, particularly in the manufacturing industry. It may happen that they have the natural resources needed as raw material. Or they may have petroleum or cheap hydro-electric power.

But the only real advantage that they have is their low-cost labour. By and large, the labour is unskilled. But for the production of natural products only minimal skills are needed.

For a very long time, the only sources of wealth of the developing countries are the commodities which they produce with their low-cost labour. But these two assets that they have will never enable them to catch up with the developed countries. In fact, through the manipulation of the market, the developed countries are able to obtain the commodities at increasingly lower prices. Yet the manufactured goods produced with these commodities keep on increasing in price, year by year. Thus, more and more commodities have to be sold for less and less manufactured goods.

What this means is that the gap between the commodity-producing, developing countries and the developed, industrialised countries will get wider with the years.

There are other disadvantages which handicap the developing countries. Generally, they are not skilled in the modern science of administering their countries. Whether it be a dictatorship or a liberal democracy, their lack of administrative skills invariably affects adversely the infrastructures required for economic stability and predictability of their country.

Additionally, the low earnings of the political leaders and administrators make them easily compromised. Without a competent and clean Government, it is impossible for a country, developing or developed, to plan and implement policies for economic growth and welfare of their people and to react to the vagaries of the internal and external economies effectively.

On the other hand, the developed countries have an abundance of skilled

Malaysia is one of the fastest industrialising countries in the world and, given time, its per capita income can catch up with that of the developed countries. For that to happen, Malaysians must ensure that their country enjoys unhampered growth, writes DR MAHATHIR MOHAMAD.

management, technological knowhow including production techniques and capital. When they started on industrialisation, their cost of labour was also low. Indeed in the early years of the industrial revolution they even used child labour. They were also able to exploit the resources and the cheap labour in their colonies.

For almost two centuries, the developed countries were able to make rapid economic progress unchallenged by the developing countries, which in most cases, they ruled and dominated.

The early Japanese products, though cheap, were of such poor quality that they posed no threat to the products of the West.

But the Japanese were competent administrators. Once they mastered the technology, they were soon able to compete successfully in the market with western products.

After the Japanese, the Koreans and the Taiwanese proved that mastery of western technology is possible for anyone who really tries. Given the opportunity, developing countries can in-

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industrialise and compete successfully with the developed countries.

At this stage, the developed countries decided to obstruct the industrialisation process in the developing countries. It was too late to do anything about Japan. And so they classified Korea, Taiwan, Hong Kong and Singapore as Newly Industrialising Countries (NICs). They identified the comparative advantages of these countries as low-labour cost, authoritarian Governments, low currency value, and protection for local industries as well as domestic markets.

By stirring up industrial unrest and demanding an end to undemocratic rule, they set the stage for economic and political instability. Pressure by the Group of 7 industrial countries and the World Bank resulted in the currencies of the NICs

with lower wages

being revalued upwards. More pressure was applied in order to open up their domestic markets.

Immediately these NICs became less competitive. Industrial and political unrest reduced productivity. Higher wages paid in the revalued currency increased the unit cost of products. The cost of living rose rapidly, negating the higher income received by the workers.

Having succeeded in obstructing the development of the NICs, the rich developed countries are not going to wait until the other developing countries reach the stage of the NICs. They reasoned that it is easier and more effective to act early while these countries are still very weak.

As has been mentioned, the two most important advantages the developing countries have are natural resources and low-labour cost. The resources are countered by scientifically researched substitute or manipulation of the market. Thus, tin as a packaging material faced competition from paper, glass, plastics, aluminium and a number of other materials. Through threats and the actual use of these materials, tin prices were pushed down so low that mines had to be closed. Rubber had to compete with synthetics against which it lost out. The same happened to other natural resources on which the developing countries depended in order to achieve economic growth.

Granted, the developed countries may not be deliberately striving towards impoverishing the developing countries when they looked for substitutes which were either better or cheaper or both. But the effect on the developing countries was to impoverish them.

Some developing countries like Malaysia decided to industrialise in order to reduce dependence on the unreliable commodities. Malaysia has to a certain extent mastered the skills required to administer the

country under the democratic system. It is, therefore, stable enough to enable the economy to grow and to switch to industrialisation.

But Malaysia, together with other developing countries, lacks the know-how and technology, industrial management skills and capital. To overcome these disadvantages, Malaysia invited foreign capital investments along with their technology, management skills and marketing know-how.

But for foreign investments to help Malaysia develop, the country must offer certain comparative advantages. Along with political stability, tax and other incentives were offered. In addition, Malaysia has the usual lower cost labour of developing countries.

Unable to charge Malaysia with being authoritarian, the developed countries, particularly their trade unions, set out to destabilise industrial relations in order to discourage foreign as well as local investments and prevent progress towards industrialisation.

Clearly if the advantage of low-cost labour can be eliminated, the developed countries will have all the advantages. Conversely, without the advantage of low-cost labour, there is no way for a developing country to be more productive, that is, to have lower unit cost in manufacturing than a developed country.

Working through international labour organisations, the leaders of the labour unions in the rich developed countries gained influence over the leaders of unions in developing countries. By involving the principles of free association and the right of workers to form trade unions and to take industrial action, the leaders of the trade unions in the rich developed countries were able to lend legitimacy and moral strength to their objective of preventing the developing countries from competing with them

They argued that competition must be fair and the developing countries were not competing fairly because they do not pay their workers fair wages. That the developing countries have to pay to the developed countries for their technology, management expertise and cost of capital and are, therefore, at a disadvantage when competing with the developed countries, are ignored.

Are wages in the developing countries really low? Wages or any kind of earnings are only meaningful when their purchasing power is taken into account. Absolute sums of money are quite meaningless if what the wage earner can buy with them is less than what wage earners in other countries can buy.

Thus, one ringgit is worth

should stay and spend in their own country. It is only if the Malaysian goes to the US that he will feel poor. Conversely, the US executive travelling to Malaysia will feel well-off.

A comparison of the cost per day for a traveller in the different countries as analysed by travel magazines shows clearly that the cost of living in Malaysia is about a third of that in most developed countries.

It is, therefore, wrong to compare the exchange value of the wages of a Malaysian worker or executive with that of workers in the developed countries. The cost of living in Malaysia is low. It is approximately one-third that in developed countries.

If wages in Malaysia are made the same as wages in developed countries in ex-

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two-fifths of US\$1 or 40 US cents since the exchange rate is US\$1 to M\$2.50. But in terms of purchasing power they are approximately the same. US\$1 will buy one hamburger of the same size as the one sold for M\$1. The same ratio is obtained when other products, food and housing are compared.

A worker in Malaysia earning \$500 a month can live equally well as a worker in the US earning US\$500 per month. In actual fact, a worker earning US\$500 per month in America is poorer than a M\$500 per month Malaysian worker.

Even for business executives earning the same salary as American executives but in ringgit instead of the US dollar, their purchasing power is the same if they

change value, then the Malaysian worker would be more highly paid than the worker in the developed countries in terms of purchasing power. Unfortunately, this will not be for long. Higher wages will lead to inflation which will reduce the purchasing power of the Malaysian worker. In the end, although wages may be high, the purchasing power will remain the same as before or may even be lower.

But what is really important is that the comparative advantage of low-cost labour would be lost. At the same time, the developing country would still be without indigenous capital, technology and management skill. It will still have to pay for all these by giving tax

and other incentives. In other words, cost of production in a developing country will be higher than in developed countries. The competitive edge will be lost.

This means that developing countries will not be able to catch up with the developed countries. A developing country will always be a developing country although the workers are paid the same wages as those in developed countries. Worse still, as there is no comparative advantage, there will be no foreign or even local investments.

It will not be able to industrialise. It will have to subsist on the production of commodities, which provides fewer employment opportunities. Unemployment will characterise the labour scene. And the developed countries will always be richer and more powerful than the developing countries. This is the real objective of the developed countries and their workers and unions. They know that by forcing wages to go up in the developing countries, the threat to their own livelihood and lifestyle posed by the industrialisation of these countries will be removed.

Workers and trade unionists in developing countries should think twice when their brothers from the rich developed countries express concern and sympathy for their lot. When competitors suddenly become supportive, there is reason for suspicion. As much as our goods are competing with their goods, workers in developing countries are competing with workers in the developed countries.

Malaysia is one of the fastest industrialising countries in the world. Although the per capita income is still about one-eighth of the developed countries, its growth rate indicates that given time it can catch up. Because of this, a lot of attention is being paid towards its performance. There are many indications that the developed countries will not allow unhampered growth for Malaysia.

Certainly the frayed unions in the developed countries are not going to permit yet another country to threaten their jobs and their comfortable lifestyles. Malaysians would be naive to think that they are going to have an easy passage. It pays to be alert and attentive.

But workers must be paid what is due to them. Their wages should go up if productivity goes up. Their unions must protect them. The Government too must protect them. But at all times everyone must be aware that when wolves offer to escort Red Riding Hood, the little girl can end in the stomach of the wolves.

Our only advantage is our low-cost labour and our low cost of living. If we lose it, then we will be a permanently poor developing country.

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