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The ugly side of Western capitalism

THE world must pay careful heed to the dark side of free market liberal democracy, warned Prime Minister Datuk Seri Dr Mahathir Mohamad at the 54th Session of the United Nations General Assembly in New York yesterday.

The 20th Century is coming to an end. Before we enter the 21st Century, is it useful to review the events of the 20th Century so we may learn from our experience and hopefully, we will know how to conduct the affairs of the 21st Century.

When the greatest war in human history ended, this august body, the United Nations was founded.

We thought there would be peace as the great powers work together in the United Nations. But not so.

Immediately, the victors divided themselves in two camps and initiated the cold war.

However, it was the threat of a hot war that kept the war cold.

Each side built huge arsenals of nuclear and non-nuclear weapons and glared at each other across deep chasms of misunderstanding as they threateningly fingered their nuclear triggers.

For the colonies of European nations there was an up-side. Fear of defections to the other side forced the two camps to relax their grip on their colonial territories.

Countries gained independence but their survival depends on their skills in playing the Western bloc against the Eastern bloc.

Unfortunately, this choice to defect to the other side did not last. Suddenly, the Communist side collapsed.

Lured by the apparent wealth of the Western free market liberal democracies, the Eastern bloc jettisoned their authoritarian, centrally planned economies and adopted the liberal democratic free market overnight.

They thought that since they now have a similar system as the Western bloc they would get the friendship, cooperation and help from the Western countries.

They were naive enough to think that after seventy years of command economy and dictatorship, they could overnight switch to the free market economy under the liberal democratic system.

They soon found out that they knew nothing about how to make the system work and that they would get no help from the Western nations.

Instead, the Western nations saw in their incompetent floundering, an opportunity to destroy the Eastern bloc, in particular the principal flag-bearer, forever.

Even as the inability to manage a free market resulted in galloping inflation, destruction of state enterprises and massive unemployment, the hedge funds and the Western financial institutions moved in to devalue the currencies and make debt defaulters of this once powerful enemy.

Despite knowing that these people could not manage a free market liberal democracy at all, they were nevertheless urged and threatened into continuing anyhow. There was no going back for the Eastern block countries.

The destruction of the Eastern bloc was complete. It could never again militarily challenge the Western liberal democratic free marketeers.

Now, there would be only one choice for the world and no defection would be possible for the countries of the world, big or small.

With this, the liberal democratic free market capitalist see no more need to be gentle in spreading their systems or in profiting from them.

No one would be allowed any other political or economic system, except what is prescribed by the sole dominant bloc.

The true ugliness of Western capitalism revealed itself, backed by the military might of capitalism's greatest proponent.

For the small countries, the demise of the Eastern bloc was a major disaster. Now they are exposed to pressures which they cannot resist.

And very quickly they learnt that the free marketeers intend to milk them dry.

As for their politics, the instability of the liberal democratic system that comes with a lack of understanding of its intricacies by the leaders as well as the people, meant that they would stay in a state of continuous turmoil, verging on anarchy.

A few countries apparently managed to grow and prosper. But not for long.

The currency manipulators and short-term investors of the rich soon impoverished these countries through devaluing their currencies and share prices.

Impoverished and politically unstable, they were forced to borrow from the IMF.

Whether by design or through sheer lack of understanding, the economic regime imposed by the IMF destroyed their economies further.

Soon their political freedom was also subverted and many had to accept political direction by the IMF or the loans would not be made available. For practical purposes there was no independence.

And so for the small independent countries of the world the future looks bleak.

They are now being told that the world should be borderless, that capital, goods and services should flow freely between countries.

There should be no discriminatory taxes to protect local industries or products.

Local banks, industries and products must compete on the same footing as imported products, and their banks and industries must compete with foreign banks and businesses which want to set up operations in their countries.

They must have national status like those given to local businesses. This way, it is said, a level playing field will be created and competition will be fair.

But can competition between giants and dwarfs be fair even if the playing field is level.

The giant banks, corporations and industries from the rich countries with huge local markets can afford to lose money in a small foreign country when they make huge profits at home and elsewhere.

The small businesses in the small countries will go bankrupt if they lose money repeatedly.

In the end, they will have to sell to the giant foreign companies or close down altogether.

There will be no more big local companies. There will only be branches of large foreign companies who will indulge in transfer pricing, and will repatriate most of their profits.

The efficient giant may produce better and cheaper goods, but if a country does not export its own products to earn foreign exchange, it will not be able to pay for imports.

Cheap high quality goods mean nothing if you have money to pay for them.

The markets of the poor countries may not be big, but impoverishing them would result in lost sales for the rich.

That was what happened when the currency traders impoverished the countries they attacked.

These countries could not buy the products of the rich i.e. the rich lost their markets and world trade contracted.

Free, unrestricted flow of goods and services across borders may be good for a while.

But eventually, it will destroy markets and result in a contraction of world trade. The world would actually become poorer because of free trade.

After the last World War, the confrontation between East and West led to most of the colonies being liberated and becoming independent countries.

Being independent meant the right to govern their countries themselves.

Unaccustomed to wielding so much power, many of these Governments failed.

They became hopelessly indebted to the banks of the rich countries. Their people suffered from incompetent and frequently oppressive rule.

But the principle that prevailed in the third quarter of the 20th Century was that no one should interfere in the internal affairs of a nation.

That, in fact, was the essence of independence. As long as the world was divided into Eastern and Western blocs, this principle was respected.

But then a President decided that his country had a right and a duty to oversee that human rights are not abused anywhere in the world, irrespective of borders and the independence of nations.

No one conferred this right on this crusading President. But small things like that was not going to stop him.

The claimed victory of the West in the Gulf War was regarded as a moral endorsement of the right of the powerful to interference in any country's internal affairs.

Soon, it was not just human rights. Systems of Government and the administration of justice, of financial and commercial systems came under the scrutiny of the powerful countries.

They insist that there must be only one way of administering a country, and that is the liberal democratic way.

They insist that there can be only one economic system for the whole world, and that is the free market system.

They insist that there must be openness in everything; transparency, separation of the private from public sectors, non-discrimination between ethnic groups and no discrimination against foreigners in favour of nationals.