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US unlikely to push for reform of world financial architecture

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PROFESSOR Paul Krugman, the well-known American economist told us last week in the presence of the Prime Minister Datuk Seri Dr Mahathir Mohamad, that the United States and the rich industrial Group of Seven countries are unlikely to give priority to reform the international financial system, as the financial crisis has abated.

He also said the US was more interested in Latin America than in Asia! What more of Malaysia?

The views of US academic, business and political leaders on Malaysia, affect our economic prospects. Hence, we need to understand what and how they think and perceive us, so that we can improve our understanding of each other and help to promote better business relations.

Furthermore, with the growing pressure for the the Second Round of the World Trade Organisation coming from some of the rich industrial countries that will meet in Seattle in November this year, we have to get a clearer understanding of the Americans' views, particularly since the US leads the West.

It was possible to get some insights from my personal interaction with some American businessmen and a group of high level staffers to US Congressional leaders, who were on a study tour of Malaysia in mid August.

I found out through my discussions that there appear to be major differences between their perceptions and the hard reality on the ground in Malaysia, among many influential American businessmen and political leaders in the US.

The following are some of the business perceptions in the United States:

1. The US is the world's largest, and most open market, which absorbs large imports from Malaysia and other countries.

Hence, Malaysia and other countries are expected to open their markets to US exporters and investors, without restrictions and as soon as possible.

Big American businesses are not concerned that the US and other rich industrial countries could well control our biggest banks and corporations and through them even our economy and national sovereignty! They simply want a bigger and better share of world trade and investment.

2. The US believes in free trade, hence currency speculators and even manipulators should be allowed freedom to trade anywhere.

In any case speculators will be disciplined by market forces for any so called abuses on their part, such as currency manipulation. So why subject them to any supervision or controls.

Big US businesses are not concerned that until these manipulators are caught or disciplined by the market forces, they would have caused enormous disruption to the developing economies and untold suffering to the masses of poor people, who have not been responsible for the financial crisis.

3. They say that the Asian crisis was caused by national mismanagement and not the highly leveraged funds, ie hedge funds.

They claim that if our financial institutions were stronger, the currency speculators would not have been able to do much harm.

But they forget that the countries that resisted the currency attacks were those that had some currency controls even before the crisis. Now that Malaysia has selective controls, we too will be better off in the future.

The moral to be drawn is that we should not be too open, at least until we are much stronger.

4. American businesses ask whether enough corporate blood has flowed, meaning that large corporates should be allowed to collapse and top managers should be removed, in order to have a more lean, mean and efficient corporate sector.

They are not interested in the consequent social implications of retrenchment, unemployment, the breakdown in ethnic balance in employment and domestic ownership and the consequences of possible social and political instability, in the adversely affected developing countries.

They say that they too have had their earlier problems with the Savings and Loan Schemes in the US, and therefore we should allow our weak businesses to collapse and go bankrupt.

But of course, they do not refer to the recent US bail-out of their Long Term Capital Fund. While the richest and most powerful country in the world can afford to bail out companies and even individuals via their public welfare programmes, small developing countries like ours, are expected to sacrifice and suffer even more, when we can least afford to.

5. The Congress staffers met the American Chamber of Commerce in Malaysia (Amcham) and were obviously surprised that American businessmen here in Malaysia stated quite clearly that they felt 'comfortable' to do business in Malaysia and that they could always have access to top officials in Government, if they needed to solve any difficult problems.

US businessmen in Malaysia are in fact concerned that many of their boardroom directors appear to have the wrong perceptions of Malaysia. This often made it difficult for them to get quick approvals from US headquarters for expanding investment in Malaysia.

It became clear that these wrong perceptions were derived from negative media reports of Malaysia in the US, when in fact the reality is quite different.

I suggested that American companies could withdraw their advertising support from some of their mass media that report untruths, but this idea was not taken up as US businessmen are apparently scared to displease their Press, which can harm them in return! So much for the tyranny and misguided power of their mass media!

6. Then the question of Malaysia's Exchange Rate Controls was raised. It appears that there is now more open mindedness to our selective exchange controls.

This is because they have discovered that the Malaysian economy is recovering well, despite having rejected the IMF's restrictive and standardised policies.

Many American leaders have also become disillusioned with the IMF, due to its dismal records and the social disruptions it has caused in East Asia and Russia.

Some enlightened US opinion leaders are even suggesting that they would wait to see how our selective Exchange Rate Controls succeed, so that we could show them how western models and thinking should be modified. This is encouraging!

There is therefore a growing trend in the US to reduce their financial support for the IMF, and instead provide direct funding on a bi-lateral basis to countries in need of IMF assistance.

This way the US would be directly responsible for its own bilateral aid programme, instead of having to be responsible for botched up IMF programmes and earning the resentment of the recipient developing countries!

My view is that the IMF can continue to exist, but that it needs to reform itself and adopt more realistic financial policies that also show

concern for human welfare and human rights!

The IMF could develop a greater sense of empathy with the poor developing countries and thus become much more relevant and productive.

One major way of achieving this ideal is to reorganise the IMF staff so that it becomes less dominated by Anglo American staff!

But will the US which is the largest shareholder in the IMF, buy this proposal? I doubt it since the US is so self-centred and self-seeking.

6. However, despite some reluctant acceptance that the IMF has been wrong, especially in Asia, there is still some doubt as to whether Malaysia is undertaking sufficient reform of its financial systems and institutions for good governance.

They also raise the concern that Malaysia could possibly do an 'about turn' anytime in the future and that this prospect could cause much uncertainty over consistency in policy?

The answer to this is easy. Malaysia has to do what is in its own national interest, like any other country.

Malaysia cannot reasonably be expected to give guarantees to be consistent even when it faces a crisis, particularly when the crisis emanates from external sources!

7. Some American officials think that Malaysians are too sensitive to the negative criticism of their mass media and politicians.

While they readily acknowledge that their mass media is often sensational and even distorts the truth, they claim that they too suffer from this mass media malady and cannot do anything about, because of their definition of the freedom of the Press!

They argue that when US Congressmen attack Malaysia and other countries for all kinds of 'violations', and even threaten to introduce punitive, draconian US legislation against other countries, a lot of these criticisms and threats soon dissipate into thin air and should therefore not be taken seriously, because that is how American politics work!

They explain that even strong uncivil statements made by President Clinton, vice-president Al Gore or Secretary of State Madeline Albright should be brushed aside because they often do not reflect American public opinion. It's unbelievably complicated!

8. American public opinion does not seem to appreciate that unfortunately, the old image of the Ugly American may well be returning, at least in Asia, if not in the whole Third World and perhaps even in Australia and New Zealand and other Industrial countries!

In a sense, the US has not yet learnt how to lead qualitatively with due regard to the interests of world peace and prosperity.

Its overt preoccupation with military might, superiority and world dominance, has eroded its conscience to be sensitive to human welfare and the genuine human rights issues such as the basic need for food, shelter, clothing and good health for the billions of people in the Third World.

The US is only concerned with its own wealth, even at the expense of the rest of the world.

This explains why the US authorities can continue to drag their feet over the whole question of the New Financial Architecture. Their hedge funds are allowed to run wild, despite the tremendous harm and misery wrought upon millions of Asians, Russians and those in Latin America.

If only the Americans seize the wonderful opportunity that they now have to make the world more secure and stable, for trade and investment to flourish, there would be greater world peace, prosperity and human welfare and more genuine human rights to enjoy.

We can only hope that greater wisdom will prevail and that the powerful US will learn how to use its power wisely to lead the world to higher levels of human welfare in the 21st century.

