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Re-examine globalisation's benefits

TEXT of speech by Prime Minister Datuk Seri Dr Mahathir Mohamad at the opening of the International Consultation On Globalisation at the JW Marriott Hotel, Kuala Lumpur on Wednesday.

GLOBALISATION is on everyone's lips nowadays. Until the protests in Seattle it was assumed that globalisation was unstoppable, inevitable and definitely the answer to all the problems, social, economic and political, of a world.

Globalisation is obviously a great idea whose time has come. In a world where jet planes and worldwide telecommunication have reduced it to a global village, it is inevitable that globalisation becomes logical and even unavoidable.

But in the past there were also many great ideas which had been accepted as inevitable, but they have all been proven wrong and had to be jettisoned finally.

Republicanism was considered inevitable because feudalism and kings with divine rights had become too oppressive and had to be got rid off. The return to the public was believed to ensure that the public will not oppress itself.

But republics had to have leaders and apparently they can be as oppressive and inconsiderate as were the divine kings.

And so to Republicanism was added the idea of absolute equality. Socialism and Communism were supposed to do this. The aristocrats were to be liquidated and a workers' Government would nationalise everything and distribute all earnings to all the workers equally.

It took more than 70 years and the killing of millions before it was realised that a totally egalitarian society just could not work. The great panacea for the ills of human society was apparently not so great after all.

The heaven on earth that was promised by the originators of the ideas turned out to be anything but a heaven.

When it was abandoned, Capitalism claimed victory. During the challenge posed by socialistic egalitarianism, the capitalists had restrained themselves. They showed a friendly face. They accommodated some of the egalitarian ideas, and accepted the need for their activities to be regulated.

The Governments curbed the more rapacious of their schemes to reap the maximum profit from commerce and industry, especially the finance industry. Monopolies were made illegal.

But now that Capitalism had proven superior to egalitarian Socialism and Communism, new ideas for creating a new heaven on earth poured from the mouth of the victors. This new heaven will be built by doing away with regulations, by an absolutely free market, by breaking down the boundaries of nations and creating a single global entity.

Can we be sure that these new ideas, this globalisation will not go the way of the great ideas of the past? Half a century down the road, or maybe a century, will we be still lauding and practising absolute Capitalism in a globalised world?

Will not Capitalism bring about the same misery that will force people to rebel against it and probably overthrow it as violently as the previous great ideas and their proponents were rejected and violently discarded?

These are the things that we should think of before we espouse

globalisation too enthusiastically. Globalisation as presently interpreted is the brainchild of absolute Capitalism. Its objective is to enlarge the sphere of Capitalist activities to the whole world.

The Capitalists had always resented their confinement to their own countries. They resented the independence of nations with their own systems and policies which prevent their full economic exploitation by those with the capital and the know-how.

If the borders of these independent countries could be brought down and a single policy and system for the whole world adopted then capital could move freely and be fully employed to make even more capital. With huge amounts of capital at their disposal they could develop even bigger ambitions.

And so the world is presented with the great idea of a global nation, of globalisation. But this globalisation is to be confined to the free flow of capital across borders.

Most of the countries of the world are capital poor. For some time now foreign investments in these poor countries had helped them to increase their wealth and economic development.

Malaysia is a prime example. Foreign investments in the manufacturing industry had propelled this country from an agricultural country to an industrialised country.

Where before Malaysia only exported rubber and tin and later on palm oil, today 82 per cent of Malaysia's exports which total almost US\$100 billion (RM380 billion) is made up of manufactured goods.

The inflow of foreign capital into the country has obviously enriched Malaysia. Encouraged by this, Malaysia invited foreign capital to invest in the stock market. Again Malaysia benefited as the share prices shot up and market capitalisation increased tremendously.

But let us look again at the role of foreign capital in these areas. Although the manufacturing plants are foreign-owned but the capital brought in represents only a fraction of the capital invested. A big portion of the capital is borrowed from local banks.

So it is not true that there is such a big inflow of foreign capital. What is true is the inflow of foreign know-how in manufacturing and marketing, something that is more essential than just capital.

Still one should not quibble about this as the foreign direct investments in productive capacities definitely contributed to the growth of the Malaysian economy. The Government did not expect any direct revenue from foreign investments.

Tax holidays were given for extended periods. The main benefit derived by the country was the creation of jobs for the people. Malaysia's unemployment rate is among the lowest in the world.

Foreign investments in the stock market tell a slightly different story. Inflow of foreign capital into the stock market pushed up stock prices making the Malaysian companies richer than their profits or assets could justify. On the strength of their high share values the companies and local investors were able to borrow much more and to expand their businesses.

The economy prospered. But the over-priced shares expose the country to market manipulations.

The strength and health of the Malaysian economy was such that the exchange rate of the ringgit was steady. Business could be done without much need to hedge. The availability of funds locally and the relatively low interest rates made foreign borrowings quite unnecessary for the local business.

In a way Malaysia had globalised earlier than most countries. So confident was Malaysia that the free movements of capital was good for the

country that it allowed the ringgit to be freely traded on the foreign exchange market. The market was free to determine the exchange value of the ringgit.

For a long time this confidence was justified as the exchange rate fluctuation of the ringgit was minimal.

It must be remembered that the great benefits obtained from Malaysia's own globalisation was during the period when Capitalism had a friendly face. As has been pointed out, the end of the Cold War removed the need to show this friendly face.

And this unfriendliness is exhibited in the General Agreement on Trade and Tariffs (GATT) rounds which dragged on for years. In the meantime the countries had to depend on bilateral trade agreements.

Bilateral trade agreements take into consideration the various interest and constraints faced by each of the countries concerned. The weak countries did not feel too threatened as they could modify the agreements to suit their needs, even though they were not always able to protect themselves against various tariff and non-tariff barriers.

But when the World Trade Organisation (WTO) was set up, member countries of the GATT had to negotiate multilateral trade agreements. Now the interest of the individual countries could no longer be considered. Instead general principles were applied equally to all countries, big and small, rich and poor.

Such were the general principles which were forced through the WTO that the poorer countries found themselves having to compete with the rich without any consideration for their handicaps. The principal thrust of the WTO agreements was to remove or reduce import duties and to equalise the rates so as to create what is termed a level playing field.

Poor countries depend on import duties to fill their coffers. Their corporate income tax yield very little revenue for them. Doing away with import duty is likely to hurt their finances. Besides, import duties are useful for protecting local industries or infant industries. Without them local products would have no chance to compete against imports from the highly efficient high volume industries of the rich.

Still the poor countries did not object to the WTO and the progressive globalisation which was taking place. Then came the currency crisis in East Asia.

The countries attacked were among the strongest economies in the developing world. Yet simply by devaluing their currencies they were reduced to begging for help.

Countries like Malaysia which in the past had welcomed the flow of foreign capital but which suffered badly when the ringgit was devalued cannot but rethink the benefits of globalisation. We consider the free convertibility of the ringgit and the free market in currencies as part of the globalisation process.

We had thought that since our economy was strong the ringgit would not be attacked. But then we were told that diseases affecting the currencies of our neighbours are contagious.

Although our ringgit was healthy, the sickness of the Thai baht had sickened the ringgit.

Perhaps there is a basis for this. When neighbouring currencies depreciate, the cost of production is supposed to go down and they would be more competitive as exporters.

Malaysia was said to be competing with Thailand and the fall in the Thai baht should make our exports less competitive.

Our economy would therefore suffer as a result of the devaluation of the Thai baht. It is however doubtful that we would go into deep recession.

Still in anticipation of the economic downturn in Malaysia the currency

traders claimed they must get rid of their ringgit. And when they sold the ringgit, its exchange value naturally fell. It should be mentioned here that the currency traders never really held any ringgit. What they did was to borrow the ringgit and short-sell it.

They were never in danger of losing any money. They merely saw an opportunity to make quick profit by short-selling the ringgit. The result was to cause the ringgit to devalue just as they had predicted.

The fall in exchange value rendered the country poor in terms of capacity to pay for imports. And Malaysia imports a lot of essentials, non-essentials and components for its industries. All these became expensive and affected the profitability of the companies and impoverished everyone.

When the currency depreciated in exchange rate terms, foreign portfolio investors found that their shares had also depreciated in foreign currency terms even if the share prices did not fall. But the currency turmoil resulted in share prices rapidly falling. Fearing further losses the foreign short-term investors sold off their shares quickly.

The result was an even more rapid and deeper fall in share prices. With this the local businesses went into a tail-spin, being unable to meet margin calls and to operate. The percentage of non-performing loans leaped and banks began to show signs of strain.

By now the economy had become really bad and needed to be helped. For the tiger economies of East Asia the only help was from the International Monetary Fund (IMF).

But the Fund was not going to help without extracting some concession. Accusing the countries of irresponsible governance, of corruption and cronyism, the IMF demanded that loans would only be given if the countries submitted to IMF control over the economy and open up their countries to foreign business.

What this means is that foreign banks and businesses could operate completely without restriction in the countries getting IMF loans. Additionally the foreign banks and investors should be free to pick up the shares of the local banks and business at the low prices which the dumping of their shares by foreign investors had caused.

It seems to many that it was grossly unfair for the people who had pushed down the share prices to be allowed to buy the shares at the depreciated prices. They may not have deliberately devalued the shares but whether deliberate or not it was they who caused the stock market to plunge. Now they are benefiting from this plunge.

But then we are told that that is how the free market operates. Indeed the free market is disciplining the Governments and forcing them to give up their corruption, cronyisms etc. It seems that it is necessary to destroy their economies along with a lot of innocent people in order to punish them. Unfortunately for many, rebuilding has not been as easy as destroying.

Many of the economies destroyed by this particular manifestation of globalisation have not yet recovered.

In the face of this can we just continue accepting globalisation unquestioningly? What we foresee is more assaults on the economies of the weak countries by the strong in the future. Or we may lose control of our economies to the foreign banks and businesses.

We see for example the formation of giant banks and corporations belonging to the rich countries. Each one of these entities is now much bigger than any one of the developing countries. Once the borders are down these giants will move in to compete with the puny banks and corporations of the developing countries.

The field may be level but the contest will not be between equals. There

is no doubt that the giants are going to win. In the end the banks and businesses of the developing countries will be bankrupted and will be gobbled up by the foreign giants.

Perhaps this will improve efficiency. Perhaps the locals working for the foreign giants will get better pay and perks. But will foreign ownership of all the wealth of these countries be in the interest of the countries and people?

Most of the developing countries have programmes for wealth distribution in order to solve social problems. In Malaysia we have to help the deprived indigenous community get a fair share of the wealth of the country through an affirmative action programme.

This programme undoubtedly affects the productivity and efficiency of businesses. But it is good for avoiding racial tension and disruptive activities which can damage business even more.

Foreign owners are not interested in the social problems of countries. They want to maximise profits. Governments will have to tackle social and political problems. So when the economy is totally in foreign hands it is likely that social unrest will increase.

But then those who control the economy would also like to ensure that the Governments are business friendly. If the Governments are not co-operative enough then the Governments should be changed.

This involves interference in internal politics. But powerful foreign business would not be too particular about not interfering in local affairs. In subtle ways or overtly they will interfere. The result is a loss of independence for the country.

Maybe we are imagining these things. Maybe globalisation will not result in the loss of a country's independence. But can we be sure? There really is no assurance this would not happen.

We have seen how much the IMF interferes in the internal affairs of the countries which borrowed its money. Leaders and Governments had to be changed according to the wishes of the IMF and other international agencies.

Malaysia is a recalcitrant. Malaysia is a heretic. Malaysia is cynical about globalisation. But it is not globalisation per se. It is the current interpretation of globalisation. Globalisation and the free market should not mean capital flows only. Even if it does, it should accept some form of regulation so that economic turmoils will not be the result.

It has been pointed out that free trade under the WTO is not free, it is regulated. So why shouldn't the process of globalisation be regulated?

The WTO must allow a degree of regulation to be instituted by member countries when the competition is not between equals. Certain practices must be allowed. There is no necessity to have only a few big companies. Let there be many companies, big and small. Let them compete with handicaps. If you can accept it in golf, why not in trade?

Give time for adjustments, for equalising the forces. In Japan some 10 corporations produce electronic products. They compete in the same markets. They continuously improve and innovate. They seem to see no necessity to acquire each other or to merge or to swallow small players in order to become efficient. We don't see any harm in their remaining separate. We still enjoy their low-priced high quality products.

Then there are the workers. For countries like India and China their people are their capital. Already the brainy among them are being enticed away. Why not also allow a free flow of human capital?

Countries with excess workers should be permitted to export them to countries short of workers and plagued with high cost labour. The productivity of the world will certainly improve. And this should be good for globalisation.

Then there is the need for time to effect the changes required by globalisation. Change destabilises and rapid change destabilises most of all. We should allow ourselves more time to change into a globalised economy.

Those who are ready, those who are rich should change first. The others can follow according to their capacities, pausing to make correction, learning from those who had changed earlier, adjusting and consolidating.

The world of today is very rich because of a combination of natural resources and the technologies that Man has developed. There is really no reason why, in a caring world, anyone should be poor. Africa, Central Asia, South America and South Pacific can easily be enriched by investing the huge surplus of capital in developmental and productive capacities.

If the world is to be a global entity then there should not be abject poverty in some parts and obscene wealth in other parts. All must be reasonably well off. Capital combined with modern technology have the capacity to enrich the whole globe.

We can invest in a powerful railway system to carry the raw materials and imports of Central Asia at low cost. We can develop the great rivers of Latin America, Africa and Asia into the kind of transportation channels that the Rhine and the Danube are to Europe.

We can transport excess fresh water from melting snow to the arid deserts of the world much in the same way that oil and gas are now being piped over thousands of miles. We can do a whole lot of things that can lend true meaning to globalisation.

Surely globalisation must involve the whole world. Today when we talk about globalisation we think only of those countries with developed or developing markets. We think of opening up existing markets. We think of maximising our profits.

But we are really not thinking about the world, about the globe which encompasses the familiar and the unfamiliar and inaccessible areas. Yet what is more reasonable and logical than to think of globalisation which involves the whole world?

It is not too far-fetched an idea. We only have to change our mindsets. And if we accept globalisation to mean the development of the whole world by the international community, slowly at first but more rapidly later, we can really become a global community, a globalised world.

No one has a monopoly of ideas. I know of course that what I say here will never be reported by the world Press. Nobody outside this hall will hear of it. But even if you as participants will not want to consider a globalisation which is more literal, a globalisation that involves the whole globe; even if you will not discuss this preposterous idea, I am happy because I have this opportunity to propound my ideas on the real globalisation.

A globalisation which involves only a fraction of the world is not globalisation. A globalisation that involves only capital flows and predatory assaults on the weak by the strong is not globalisation. A globalisation that benefits the few and destroys the many is not globalisation. And a hurried grab at the spoils is not globalisation.

Globalisation must be planned and planned carefully. The planning must involve everyone from every part of the globe. It must be for the good of everyone and it must be proven to be good for everyone. It must be implemented slowly, with the biggest effort directed at the least developed parts of the world.

Market principles must be retained. Profit making should not be regarded as a sin but profiteering, the exploitation of the poor and the gullible by the rich and the smart should be punishable by the international community.

There should be free movement of capital and labour but not to the detriment of the countries involved. The world's productivity must be increased and disparities of all kinds minimised.

I don't think we can do all these in our life time or even in two life times. But we should begin. And we should begin by thinking about it, thinking about globalisation as a sharing of the wealth of the world in raw material, capital, labour and technology, a sharing that is not equal but fair.

This is globalisation in the service of mankind. Globalisation must serve us and not we humankind serve globalisation.

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