

25/10/2003

When free trade can indeed be unfair

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AT a side event during the Asia-Pacific Economic Co-operation (Apec) Summit, Prime Minister Datuk Seri Dr Mahathir Mohamad once again reiterated Malaysia's stand on the issue of globalisation and free trade. He is quoted as saying: "Fair trade can be free but free trade can be unfair".

This is indeed a matter of concern for developing countries as free trade can be and has been proven to be disadvantageous. Free trade should take into account the weaknesses faced by the developing countries.

Free trade is often linked to globalisation. Today, it is apparent that globalisation has become a word that is in vogue. Unfortunately, the word is quite often said, seldom with the same meaning.

It is in fact one of those far-reaching concepts which are being used by different people to explain facts which are completely different in nature. Even when qualified as "economic" and "financial", globalisation can still be associated with many things.

The first that can be related to economic and financial globalisation is the everincreasing expansion of transborder financial flows as well as its impact on the monetary and exchange policies of national economies.

The classic case is no doubt the July 1997 "tomyam domino effect" which started in Thailand and affected a number of Asian countries, Malaysia included.

The second aspect of economic and financial globalisation is the so-called "globalisation of production". In the past, most if not all stages of production of goods were conducted in one country. The goods were either for local consumption or exported. However, this is no longer the case.

The domestic content of most goods has diminished, and what we see now are intermediate production stages taking place in different countries. Final products can hardly be considered to be "made in" a given country.

The third aspect of economic and financial globalisation will definitely have to be the increasing uniformity in the institutional and regulatory framework in all countries. For the globalisation of production to be possible, rules in different countries have to be similar so that no artificial advantages exist in any one of them.

Examples of these rules are best epitomised by the international standards for intellectual property rights and traderelated aspects of investment measures as prescribed by the World Trade Organisation (WTO).

Nonetheless, there are limitations to such uniformity as a natural result of national differences and interests. As such, the delicate interplay of global trends between uniformity and national identities is very complex.

To create fair trade, national differences and interests need to be acknowledged and looked at. Unless this is done, trade would be unfair to some countries. This is one of the major reasons that led to the deadlock between developed and developing countries during the recent WTO ministerial meeting in Cancun.

The fourth aspect of economic and financial globalisation is linked to a revolution in production patterns leading to a significant shift in the comparative advantages of nations. The competitive position of a country relative to others is determined more and more by the quality of its human resources, knowledge as well as science and technology that are applied to

production methods.

Abundant labour and raw materials are becoming less advantageous. This irreversible trend makes it unlikely for developing countries, in particular the South and the Muslim countries, to succeed solely on cheap labour and natural resources.

With economic and financial globalisation, comes a change in the role of the state. As a result of globalisation, external variables have an increased bearing on domestic agendas. Fiscal balance, to take an example, has become a dogma.

The requirements for external competitiveness have led to greater homogeneity of the institutional and regulatory frameworks of states. These requirements have left less room for widely differentiated national strategies vis-a-vis labour and macroeconomic policy.

Both international public opinion and market behaviour have also come to play a role in defining the range of possible actions of the states. In this day and age, information travels with but a blink of an eye and a click of a mouse button.

If, for instance, the news is disclosed that any particular country is having difficulties controlling its budget deficit or is going to hike interest rates, world financial markets make decisions based on that information which will have an impact on the country concerned.

In essence, we see countries, their leaders and their policies come under close scrutiny of the global public opinion. Any misdeed or step judged by these "immaterial entities" to be in the wrong direction will incur penalties. The opposite is also true. If developments in a particular country is considered to be positive, then the country would be rewarded.

Economic and financial globalisation is not just a result of market forces. The framework within which the market operated is politically defined. The power game among nations is ever present. So is the possibility of economic co-operation among states.

Foreign trade negotiations are still conducted through dialogues among states. Economic clout is a key factor in these negotiations as well as the settlement of bilateral trade disputes. In some cases, economic powers invoke their influence to circumvent the very multilateral disciplines that they themselves have proposed.

We must be careful not to transform the market into a form of ideology, where everything that falls into line with market forces is good and positive whereas every political decision is viewed as negative.

It is in recognising the fact that there are limits to the market that allows developing countries to act politically in defence of national interests. The move introduced by Malaysia to curb currency speculation is a good example and has been recognised internationally as being effective.

The world today is no longer divided into East-West and North-South as was the case during the Cold War. Now the world is divided into regions and countries which participate in and benefit from globalisation and those which do not.

The former are generally associated with the idea of progress, development, improvement and wealth. The latter with marginalisation, exclusion, poverty and misery. Sadly, we note the latter seems to consist of mainly Muslim countries.

It is true that globalisation has opened up a window of opportunity for countries to jump into the mainstream of the global economy. But for some countries, the integration process into the global economy is being pursued at the cost of greater domestic adjustment at a time of fierce international competition.

Will these countries, particularly Muslim countries, ever be able to

cope with the tremendous challenges of globalisation? The reality is, even in developed countries, globalisation has a noticeable impact. Globalisation means competition founded on higher levels of productivity, meaning more output per unit of labour. Unemployment has resulted from the same reasons that make an economy successfully competitive. This situation is particularly apparent in Europe.

Those who are laid off in rich countries may resort to social safety nets. Some may be retrained to find alternative employment. This is the scenario in developed countries. Without foresight and careful planning, developing countries would also face the same situation.

With this in view, it is no surprise that the Prime Minister has advised caution on the need to create fair trade, not free trade. Free trade is a "tool" of economic and financial globalisation that, if misused, could create problems for many developing countries.

Fair trade, on the other hand, could create a winwin situation for all.

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