

National unity is what will save us
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Only those with a cocooned mentality call for a Malay unity, a Chinese unity, an Indian unity. In this modern globalised era, with the unfolding financial/banking crisis in the West, the world food crisis and the oil price crisis that will spiral into hyperinflation and deflation, there are telltale signs that they can become potentially explosive. Shouldn't the call be for a Malaysian unity instead, to defuse the ticking time-bomb?
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The International Monetary Fund (IMF) warning in March that at least 33 countries of the world will face social unrest with the impending food shortage, fired the first salvo for a global panic. Grain exporting countries started to impose export tariffs, reduce export, or stop exporting totally. Hence, in March and April 2008 prices of wheat and rice surpassed historical high.

While droughts in Australia, floods in China, the use of corn fields and other arable land in US for ethanol production may have caused some supply shortage, the actual problem lies with hoarding – from exporting nations to importing nations, wholesalers, retailers, and the individual households. But the main problem is not so much of under supply, rather its price inflation of food items, and it is a global phenomenon. All nations of the world recorded double digit food price inflation for 2007, with Malaysia at 47.1%. With oil price at US\$115 per barrel, global food price inflation climbing higher is imminent. IMF's prediction spells true and very soon there may be blood on the streets.

The seeds of today's economic ills were planted in 1971 when the Nixon Administration debased the dollar from gold. Since then the world has been operating on a fiat monetary system based totally on trust. The dollar became the reserve currency of the world and the US has the advantage to create and print the dollar. From 1973, after Kissinger orchestrated that oil be traded in US dollars, the wells of economic goodies flowed into the land of America. Theocratically, the US owns the oil produced in the world, when the commodity is traded in the world market. Since then, other than a few years of recession, the US has been enjoying economic booms the last 30 over years.

Economic bubbles

In the 1990s and the turn of the century, the rest of the world, particularly Asian countries, saved, toiled, produced; while the US, operating on Keynesian economic model, advocating government's fiscal stimulus package and expansionary monetary policies through the Federal Reserve, allowed its people to consume.

The so-called Chinese 'sweat shops' produces and sell their goods to US and the rest of the world. So long as the world conducts the international trade in US dollars, Uncle Sam can go on creating and printing money like nobody's business. Factory owners in China exchange their goods for US dollars and then exchange them for their local currencies through their banks. The Bank of China has to print more local currencies to buy the dollars. This similarly happened to all producing countries in the world, including Malaysia.

World money supply increased by leaps and bounds. Foreign reserves in central banks

soared. So long as foreign reserves are kept as reserves, nothing happens. China, Russia, Korea, Japan, Kuwait, and Venezuela have begun their orderly diversification from their dollars reserve. Sovereign Wealth Funds from China, Russia, Arab countries, and Singapore are beginning their spending spree to purchase equities and assets all over the world. The flooding of fiat money into the world market has systematically increased world inflation.

Easy credit and expansionary monetary policy created economic bubbles. It was one bubble to another from mid 1990s to 2007. The Dot Com bubble burst in 2000. After 2001, more credit was created and it led to the housing bubble. 2006 saw the peak of the housing bubble and started to deflate. House prices started their long downward trend threatening the subprime mortgage financial industry.

By July, 2007, two hedge funds subsidiaries of one of the leading investment banks in US, Bear Sterns, were under receivership, sounding alarm bells for the beginning of the financial turmoil. In the months following, the Federal Reserve and central banks of Europe, Canada and Japan, loaned out hundreds of billions of dollars to leading banks of the world to keep them afloat. This leads to more inflation.

The 'geniuses' among the Keynesian economists in US Federal Reserve and Treasury have created one bubble to another. From Dot Com to housing to commodities. Oil price soared. It spilled over to other commodities and precious metals like gold, silver, and platinum. Then it spilled over to food based commodities like wheat, corn and rice. The tide of rising food prices will not ebb soon.

Facing a grim picture

USA is today faced with soaring housing foreclosures, and its credit market is frozen. Massive de-leveraging of the banks and hedge funds is intensifying, bringing down the value of assets by 10 folds. It is the opposite spiral of the leveraging phase when value of assets is created to the multiplication of 10. The US banking system is insolvent, and pretty soon will cause runs on financial institutions. The contagion effect to the banking system of the rest of the world is a foregone conclusion.

So far it has been confined to the subprime fiasco. Subprime contagion can lead to commercial properties when more businesses file for bankruptcies. Next, will be the derivative market, estimated to be more than four trillion dollars, waiting to implode. It only takes a tiny spark to trigger a flight to safety from the US dollars holding of the world's central banks, and it will be a mad rush.

We are faced with a grim picture of the world economy, with the forces of hyperinflation and deflation, both threatening to unleash their fury at the same time. No country will be spared.

The enemies are not those who operate their family businesses offering their goods at market prices, neither those who clad in orange clamouring for social justice in the streets, nor those who like to show off their keris in annual meetings. The enemies can be we ourselves, if we hesitate and do not act decisively from now. The enemies can be from without, hence Malaysians of all creeds and colours must unite, to face the challenging times ahead.

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