

Global 2001 (Said / Lid) Smart Partnership International Dialogue

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"Enhancing the Climate for FDI through Smart Partnership"

I am indeed honoured to be here among such a distinguished group of people. The image created of the African continent as a location for foreign direct investment (FDI) may be less favourable compared to other regions of the world, but there are a number of positive but little known facts about Africa, such as the considerable improvements by African governments of their FDI policy frameworks and the vast resource base that is yet to be tapped.

2. Foreign investment is now widely perceived as a formidable force in today's world economy. As such it is important that we discuss this subject in the context of a changing global landscape and the emergence of what is commonly referred to as the New Economy. Besides, FDI has in recent years undergone significant changes in terms of size, form and impact. FDI is apparently linked to globalisation. But globalisation is yet to take its final form. Indeed, like all ideas and concepts, it will change and change again as the players try to extract the best from it.

3. Let us first look at some indicators. Developed countries have always received the bigger share of the FDI. For instance in 1999, global FDI inflows reached US\$ 865 billion, of which only about one-quarter or US\$ 208 billion went to developing countries. Multinationals or MNCs as we know them, undertake most of the FDI - the driving force behind the deepening and broadening of international productive capacities. The MNCs, now numbering some 63,000-parent firms with around 690,000 foreign affiliates and a plethora of inter-firm arrangements, span virtually all regions, countries and industries. But a small segment is contributed through cross-border or bilateral investment arrangements which can also help in enhancing economic growth. Thus we see today many growth triangles and regional economic groupings where countries invest in each other through largely commonly owned corporations.

4. The world's top 100 (non-financial) MNCs, based exclusively in developed countries are the principal drivers of international production. It is estimated that their foreign affiliates employ over six million people, have US\$2 trillion in assets and their foreign sales are of the order US\$2 trillions. They are mainly concentrated in electrical and electronic equipments, automobiles, the petroleum industry, chemicals and pharmaceuticals. If one were to include the

financial and services sectors as well the figures would be so huge as to be mind-boggling.

5. Developing countries have made every effort to create the basic conditions to attract FDI such as ensuring political stability. Virtually all developing countries, through changes in their regulatory environments, have facilitated the expansion of international production. In the last decade or so more than 90 percent of the changes, in the laws governing FDI, have created a more favourable framework for foreign investment. Complementing the more welcoming national FDI regimes, the number of bilateral investment treaties - concluded increasingly between developing and developed countries - has risen from 181 in 1980 to 1,850 by end 1999. Double taxation treaties have also increased from 719 to almost 2,000 during the same period. In addition, at the regional and international levels, an increasing number of agreements are helping to create an investment environment more conducive to international investment flows.

6. Developing countries unfortunately are not always consistent. The implementing personnel often entertain ideas different from those of the Government. They may be too nationalistic and do not agree with the terms afforded the foreign investors. Dilatoriness in processing applications may be due to lack of skill or lack of understanding. Sometimes corrupt practices hold up approvals. Another major problem is due to international agencies wanting to have their own way. They have considerable clout and they can and often do throw considerable spanners into the process. Investment projects may be prevented from taking off if the international agencies have other interests in mind.

7. And finally there is the problem of changes of Governments due to the democratic or undemocratic processes. The new Governments often reject the decisions of the previous Governments. This results in agreements under which foreign investors had invested being changed or even thrown out. This will deter new investors from coming as they fear another change of Government might result in the investment not being honoured by the new Governments. Nothing deters foreign direct investors as the uncertainties caused by political changes. If foreign investors or even domestic investors are to be persuaded to invest, they must be assured that political changes will not affect the conditions under which they had invested. If new conditions are found necessary then they should be applied to new investments, not to investments already made.

8. With the information age comes globalisation. As all forms of communication improve, the relations between countries and

people have become closer. It is now so intimate that there will soon be no single- ethnic countries. All countries will have multiracial populations. But before that happens the isolation and insulation of countries in terms of the economy and politics would become more and more difficult.

9. Already we are seeing the spread of democracy as the only acceptable form of political ideology. No other system is allowed. Punishment will be meted out to those countries which disobey. Admittedly democracy is the best political system ever devised by man. But it is not perfect. It works in some countries but it has destroyed many countries also. But democracy has become such a religion that the destruction of countries by democratic processes is acceptable while the development and prosperity of undemocratic countries are condemned i.e. unless the country is a friend of the powers that be.

10. Even as they fumble with democracy, the developing countries are expected to handle globalisation. In its present form, globalisation simply means opening markets to capital and imports. There must be no conditionality which may stand in the way of free movements of capital. In East Asia, the economic tigers have now been so well and truly disabled by the activities of speculative capital that they cannot seem to recover. Indeed they are now hardly independent, having to obey the dictates of the so-called International Agencies, instruments of the powerful countries.

11. Acceptance of the present form of globalisation means accepting unrestricted Foreign Direct Investments. The developing countries may benefit economically, although this cannot be guaranteed. What is almost certain is that they will lose control over the economy. If we are only interested in economic prosperity at whatever cost, we should accept globalisation. But if we believe that national self respect, integrity and independence are also important then we should look again at globalisation.

12. We can still have globalisation but there should be some Governmental and international regulations. Globalisation is not synonymous with deregulation. It is ridiculous to expect the market to regulate itself. Governments must regulate for only Governments have the interest of the majority of the people at heart, especially democratic Governments.

13. The developing countries must insist on having a say in the formulation and the shape of globalisation. It must afford sufficient protection for their weak economies while ensuring that growth can take place. Their political and economic independence must be maintained. No way should they be

deprived of their independence, the independence that they had fought for over centuries and had attained only in the last half a century.

14. If globalisation is to be meaningful then all countries must partake of it. Presently many of the least developed countries; countries with practically no market to open have been marginalised. In a globalised world everyone should enjoy some degree of prosperity.

15. It is considered logical that profits made in a country must be shared with that country in the form of taxes - income tax and corporate tax. But we are seeing foreign investors and businesses being totally exempted from taxes by developing countries anxious to attract FDI. It is also common knowledge when the tax-free period is over the practice of transfer pricing render taxation by the host country minimal.

16. It is only fair and logical that businesses operating throughout the world should pay taxes to the world. All these businesses are based in the rich countries. Presently they pay taxes mostly to their own countries on the profits that they make worldwide. The revenue gained by their Governments go towards enriching the life of the people in these already rich countries.

17. I think it is only fair that these countries pay statutory taxes to the world because they are considerably enriched by the world. This tax should be in addition to aid which is not only insignificant but puts the recipient countries under obligation.

18. The world tax should be for the construction of needed infrastructures for the poor countries; infrastructures which can catalyse their development and access to the world markets. Ports, airports, highways, canals and rivers, power plants, railways etc. contribute much towards economic development. Not only will these infrastructures facilitate the opening up of these poor countries when completed, making their exports more competitive and their imports cheaper, but their construction would create jobs and generate wealth for these nations. The subsequent maintenance through the world tax would keep money flowing into these countries. The great international construction companies can build these projects while locals can sub-contract civil works and supplies.

19. A world tax on those countries which derive from globalisation opportunities to make more wealth for themselves is only fair. Malaysia has gained by the activities of its businesses worldwide and would willingly pay such a tax. I hope that the rich countries which benefit the most from

globalisation and a borderless world would accept this tax even if they are already providing aid to some poor countries.

20. The world will be richer because of the physical opening up of the poor but frequently resource rich and densely inhabited regions of the world. The already rich will get richer but the poor would get a little of the wealth and infrastructural needs of their countries.

21. I hope the poor countries will not reject this idea. The rich will not even take note of this proposal. But if they want the poor to come onboard with their WTO and Globalisation, they should make wealth sharing quite certain by agreeing to this World Tax.

22. While we focus on how to attract foreign capital and we adjust our economic system to accommodate the new world economic order, we must not forget the need for smart partnerships. Within the country there must be a smart partnership between the Government, the private sector and the workers. Others including the media must be brought into this partnership. It is not going to be a perfect union but it will facilitate dialogue and adjustments so as to stabilise the country and make it attractive to investors both domestic and foreign. It will also take time because sudden changes even if it is for the better, is always destructive.

23. There is now a lot of talk of "No pain, No gain". Countries, even developed countries, are being urged to suffer the pain of changes in order to achieve the necessary gains. We cannot be too sure that change would be for the better. We have seen changes being forced on some countries, changes which were said to be for their good, only to result in chaos and total destruction of their economies and their stability. It is no consolation to be told that the destruction is caused by good changes. The pain of destruction for good cannot be better than no change when the situation is not bad. When something is working well do not dismantle it and install another in order to make it work better. It may not.

24. It is far better to make painless adjustment or to make minimal and less painful change than to suddenly turn 180° because of some ideological beliefs. Even if the ideology is highly moral and appears to have worked in other places, sudden change can only destruct and destroy. Remember how many times we have been urged to accept and practise an ideology developed in some powerful countries, only to find it incapable of delivering its promises, and worse still to find that the proponents themselves in the end rejected it in favour of a new ideology. Formerly the flavour was socialism and many of us became absolute believers and refused to

acknowledge the damage that socialism did to our countries. Today the flavour is absolute capitalism. Again we are told that it is the perfect ideology. What is the guarantee that in time the destructiveness of unfettered capitalism will be condemned and discarded.

25. While we should not reject outright new ideas and ideologies, we should not embrace them unthinkingly either. We should be cautious and adopt them gradually watching their effects as they are practised elsewhere. We should be willing to endure pain only if we see pain results in gain elsewhere. Until then we of the developing world should tread cautiously. We are weak and we should therefore work together for strength, so we may influence the shape of globalisation and the free market in order to minimise the risk and the pain that we may have to endure.

26. If we are smart, and smart partnership obviously requires us to be smart, then we must ensure that Foreign Direct Investments will result in a smart partnership between us and them. They are welcomed to the comparative advantages such as low labour cost that we have but we should get in return a small share of the wealth generated and acquire some of the skills involved.

27. While foreign direct investments should be welcomed and the red carpet laid out for them it is important that local investments, small though they may be, should also be encouraged and incentives given. In time local investments would grow quite big and can be relied upon to stay put in times of economic distress. It is important to remember that local investors are our true partners. They really have a stake in the prosperity of the country. They cannot just pull out when things go bad. They have to stay and experience the pain; share the pain with us. So Governments must be smart in dealing with them. Governments must regard them as smart partners deserving of the best treatment that partners are entitled to.

28. Workers must come on board in all our smart partnership endeavours. They must be told of the benefits of regarding themselves as partners in the businesses, whether foreign or local owned, which the Government promotes. There is nothing like industrial peace to attract investments. Workers must know and appreciate that more than the benefits to Government, investments create jobs for workers. There can be no job without investments. Even Government cannot just create jobs if the Government coffers are not filled with revenues coming from investments.

29. To take industrial action in order to increase wages will only work for a short while. If the industry fails to make profits it will not expand to create more jobs. It may even close down and instead of higher wages, the workers may be thrown out into the streets. Industrial peace on the other hand will increase investments which in turn will create a greater demand for labour. When demand is high the wages will also increase.

30. The present campaign aimed seemingly at protecting the exploitation of labour may look sincere and genuine. But it is entirely possible that the ultimate objective is to keep investments at home and further increase the already inflated wages in the developed countries. While labour should be on the lookout for exploitation of labour, it must not be carried away by the power of industrial action and the sense of injustice to the point of making investments unattractive. We will be killing the goose that lays the golden egg.

31. In any case the ways to increase workers income is through education and the continuous upgrading of skills. This is especially important now because the level of knowledge is the determining factor in the productivity of workers. We cannot do things in the old way anymore. Information technology requires new skills and higher knowledge.

32. We all recognise that the private sector's primary interest is in maximising returns on investment. On the other hand Governments must care for the well-being of the people and the interest of the country. Somehow the conflicting interests of both must be reconciled. It is not impossible but both sides must appreciate this. With this appreciation Foreign Direct Investments will contribute much to the development of a country.