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“Mastering the Realities of Globalisation – The Way Forward to 2020”

The title of this talk has a hopeful note. But let us not be carried away by the subject.

2. To repeat a worn-out cliché, globalisation is an idea whose time has come. Indeed globalisation has been with us since Drake and Magellan circumnavigated the globe. They did this to open up sea passages for trade.

3. But modern globalisation can only be welcome if it serves the interest of everyone, the whole world. It is important to remember that globalisation is not the exclusive property of the rich and the powerful only. It is not even the property of the newly developing countries, bent on using it to grow themselves. It is the property of all mankind, of the whole globe, including the very poor in the isolated countries, if globalisation is to be truly meaningful.

4. Today’s globalisation is the natural consequence of a world that has been shrunk by the speed of jet travel and instant telephonic communication. No one, no country can isolate itself anymore. What happens 20,000 kilometers away will affect even the remotest community or village. If a nuclear device is exploded they will be wiped out as much as the people in the target area is wiped out. But even if it is only a collapsing stock exchange in the most developed nation, the fallout will be felt by all.

5. Therefore we should take cognisance of this and in discussing globalisation we should not talk about how countries like Malaysia can benefit from the opening up of its borders alone, we should talk also about the Rwandans and the Burundis of Africa, the hill-tribes of the golden triangle of Southeast Asia and the Amerindians of the Brazilian Amazonian Forests. They have as much right, indeed even more right to benefit from globalisation, than the wealthy people of Wall Street, of the City of London and even the players on the Kuala Lumpur Stock Exchange. Can we in Malaysia really feel happy if in the midst of our plenty, there are Malaysians dying of starvation? Certainly not. We have a strong program to let the poor get a share of the riches of this country. Yet so far, when we talk of the benefits of globalisation hardly a word is said of the starving millions who die prematurely every day all over the globe.

6. Trade can without doubt bring about riches. The countries and peoples of the world have been trading since ancient time. The Phoenicians were the great traders of the Mediterranean, and the Ancient Silk Road delivered the silk and the ceramics of the East thousands of miles across Central Asia. An American historian studying in a Malaysian University pointed out that 1800 years ago the Malay Peninsular was already exporting jungle products in exchange for the silk and lacquerware of the neighboring countries.

7. Every time goods are traded, value is added and added value must result in increasing wealth. The gum and the scented wood of the Malaysian forest did not constitute wealth until they were extracted and bartered or sold to the people who desired these products. Similarly gold in the ground create no wealth until it is dug up to be sold as ore or as smelted gold to those who love this glittering metal as ornaments. Trade is therefore the greatest creator of wealth in human society.

8. But in the desire for even greater wealth, in the shortest possible time, some could not wait. Thus while the Arabs, the Chinese and the Indians were happy to risk sailing in their junks with trade goods for exchange with the products of the countries of Southeast Asia, the Europeans, who came later, decided to secure their supplies by coming in armed merchantmen, then establishing fortified trading stations and then to simply conquer their suppliers, making colonies of them.

9. The Arabs, the Chinese and the Indians, did not bring wars to their trading partners but the ethnic Europeans came in their Black Ships to force Japan to open up for trade, to conquer Malacca and the fabled Spice Islands of the East Indies to ensure supplies of spices, and to expand the huge opium markets of China.

10. No doubt Japan, China and Southeast Asia became richer because they had been forced to trade, but their trading partners, the Europeans waxed hugely rich because of the unequal terms of trade.

11. They did not call it globalisation then, but in fact the Europeans, in their inimical way had already started the process. What is happening now is merely a continuation of the process, made easy by the advances in technology.

12. But need it always be this way with world trade. Do we need to use force in the World Trade Organisation (WTO) in order to open up countries and bring down their borders. Do we need to apply sanctions, to punish through unilaterally applied counter-vailing laws, through the obstacles of strange languages in the documents we have to fill, health requirements, standards, threats, and then through actual conquests of countries in order to get at their products?

13. The terms of trade for the poor resource suppliers have worsened over the years. In the late 1940's a small automobile could be bought for about RM 5000. The rubber price was then around 70 cents per pound. Today the same size of cars, albeit technologically better would cost RM 50,000 but what is the price of rubber? Has it risen ten times to RM 7.00 per pound? Always the poor countries have to sell more and more of their raw products in order to buy less and less of the goods they import from the rich countries.

14. Then there are the very poor countries with practically nothing to produce and sell to the world, countries whose people continue to languish in poverty in a prosperous world, who have not advanced one iota since the East India Companies of the European nations began to ship the products of the world in fast clippers. Are we to ignore them because they have nothing to enrich us?

15. What is the literal meaning of globalisation? It is the practical union of all the countries of the world into one global entity. The borders will separate the nations no more. Effectively the world will be one country to trade and to invest in. It should also be as one country within which people can move about freely. And its administration must be responsible for the whole world, not the rich regions only.

16. In a country, the authorities are duty-bound to look after the well-being of all citizens. A Government cannot, if it aspires to be a civilised Government, look only after the rich tax payers and the productive people. The poor, the unemployed, the handicapped, the very old – all have to be looked after. Some rich countries have really gone to town, so to speak, with their huge unemployment pay, their pensions equal to the last-drawn pay, their subsidised travel for senior citizens, etc etc. Others which are not so rich do have pension schemes and provident funds.

17. If parts of the country are for some reason or other poor, the Government would still build needed infrastructure, roads and bridges, electricity and water supply, hospitals and schools and etc. These provisions not only help to give a good standard of living for the poor in these areas, but they actually help these areas to develop and prosper and the people to catch up with those in the more developed parts of the country.

18. This can be done in a country because of the principle of taxing the rich in order to help the poor. The rich pay taxes, higher taxes so that the Government may help the poor to get a share of the wealth of the nation. Some countries went overboard, taxing the rich until they are left with nothing extra for themselves, until they are as poor as the other people in the country. But these countries soon found out that if you make the rich poor, then there would be no extra tax to collect from them in order to subsidise the rest of the people. If you tax the poor people whom you have subsidise, it becomes ridiculous because you are really taxing yourself. And so socialism and communism failed. We now

go back to the system where the smart and the resourceful can make money legally and we tax them to help the poor.

19. This is what happens in a reasonably well-run country. But if the world is globalised and has in effect become one global nation, shouldn't the global nation be concerned for the welfare of the poor countries and the poor peoples of the world, the same way as the Governments of independent nations are concerned?

20. But when we talk about globalisation, we not only ignore the poor but we want to extract the most for the already rich. This is especially so with the rich and the powerful.

21. For years they frustrated the GATT rounds. Finally they agreed to the World Trade Organisation – the WTO. Almost immediately they want to control it, to put in their appointees in the offices of the organisation. And the talk is all about opening markets so that their goods can enter, their capital can invest and buy anything and everything without regulations, or restriction. It is going to be a free-for-all in which the rich and the strong will take what they want and the poor and the weak will yield all that they have. And the Devil take the poorest. Free trade is for those who can trade, who have products, raw or processed, to sell, and with the proceeds to buy. For those who have nothing to sell, i.e. to trade, the WTO is not interested. It is not a welfare organisation. If there is no trade and nothing trickling down to the poor, that is just too bad.

22. Is this the kind of globalised world we want to build – a world divided between the rich and the poor? What is the meaning of a globalised world if only a part of the world is for practical purpose, globalised, a thoroughly capitalist world which excludes the absolute and the near absolutely poor.

23. Malaysia is a middle income country. It was not always so. A large percentage of the people were very poor when we gained independence in 1957. But because we opted for democracy, those wanting to win elections were forced to care for the poor in order to gain their support. Because of this we provided the poor especially in the rural areas with needed infrastructure, health care, education and skills training. Today they are no longer as poor. Today the rural areas are no longer exclusively inhabited by poor people. Today they enjoy all the amenities of the richer urban areas.

24. The globalised world as visualised today is not a democratic world. Not only are the citizens of the world unable to elect the people who decide on world affairs, even the nations of the world are without voting rights to choose the people interpreting and implementing globalisation now. As a result no one represents the poor and no one cares for the poor.

25. But it is time that the countries of the world which are represented in the WTO take leave of their preoccupation with free trade and look at the welfare of the poor countries and the poor people instead. Much can be done for them for very little.

26. If in a country the rich are taxed in order to redistribute wealth to the poor, to build the infrastructures in the poor parts of the countries, then there is every likelihood that the poor country will develop and the poor people will have some wealth if those who benefited from the opening up of countries and free trade and investments were to pay tax to a central authority which will then build the infrastructure, provide health care and education to the poor countries which are not benefiting from world trade, from globalisation.

27. Without doubt the building of infrastructure, provision of education and health care will enrich the poor countries. New opportunities will open up. New roads and railways will enable them to ship out their goods at better prices, while their imports will cost them less.

28. The wealth so created will make them rich markets for the exporters of the rich countries. In the end the taxes they pay will be compensated by the additional profits from the new markets they had indirectly created.

29. The Malaysian businesses which benefit from world trade in a globalised world must be prepared to pay the international taxes. In the end Malaysian trade would expand.

30. How much tax should be paid by the corporations and banks which benefit from the international trade in a globalised world can be worked out. Today we have agreements on double taxation between countries. To extend this concept to a worldwide international taxation will not be too difficult. The rates and the scale can be worked out so as not to become a disincentive to international trade and investments.

31. Today, because of the incentives which Governments wanting to attract investment have to give, international investors pay practically no tax. Surely they should be prepared to pay a small tax on their profits derived from the tax-free privileges that they enjoy. In effect it is the host countries which pay as they forego the taxes due to them. Competitiveness will not be affected as everyone would have to pay the same rate of taxes.

32. Since time immemorial taxes in one form or another have been paid. Today countries are being forced by the WTO to stop or reduce the collection of import duties. This will affect the competitiveness for their local products. The giant foreign corporations are going to benefit from the abolition or greatly reduced import duties.

33. The new international trade tax for the development of the poor countries will be less than the taxes the corporations had to pay in import taxes before. Again it will not be a burden on the international corporations. It will be the countries which open up for trade which will actually be paying through the taxes they forego.

34. The international trade tax may be regarded as an innovation in terms of taxes. But it should not shock the traders. After all the removal of borders and with it the import duties is a shock for many Governments which had been imposing import taxes for ages. If the Governments can be forced to accept the removal of one source of revenue surely the international traders and investors can be forced to accept the payment of taxes on the profit they obtain from globalisation, the opening up of countries and the removal or reduction of tax barriers.

35. So what is the way forward to 2020 for Malaysia? As a middle income country which had used import duties to build up its economy, its capacity to industrialise and its competitiveness, globalisation as presently interpreted will not really benefit Malaysia. Already we have seen how the local automotive industry is losing out to imports from the very low-cost countries. The foreign and local investors will only invest in the country if their products are protected. If they have to compete with imports from low-cost countries, even local investors would not invest in the country.

36. There was a naïve assumption on the part of Malaysian consumers that the removal or reduction of import duty would result in lower prices of motorcars for example. They were disappointed because the prices went up instead due to the heavier excise duties imposed on all cars, local or foreign. This is because Government cannot afford to forego taxes if it is going to run the Government machinery and build needed infrastructures including roads. And so the import duties are replaced by excise duties. This equalisation of taxes insisted upon by FTA and later the WTO will result in local industries, such as the national cars, to lose the protection they had enjoyed and consequently their competitiveness. The gainers are the giant foreign manufacturers who make use of countries with low production cost or the high-quality brand-name products, who all enjoy economies of scale.

37. The only way for Malaysia to benefit from removal of import duties and other financial barriers is for our industries to be more cost-efficient. We cannot do this by lowering labour cost as this would make our people pay for the profits for the big international companies. We have to try to improve productivity and the quality as well as the uniqueness of our products.

38. Alternatively we have to give up the manufacturing sector and concentrate on niches in which we can be more competitive. We can of course become a

commodity producer again – increasing our production of palm-oil, and rubber and maybe other agricultural products. That would be regressive.

39. We can also go into the new knowledge-based industries. Perhaps we can succeed in some areas. But these new industries demand greater research and development. Our expenditure on R & D is smaller than that of just one of the big international corporations.

40. Some say why produce things which others can produce more efficiently, cheaply and with higher quality. Why not just buy these foreign produced imports? But if our industries are dead and our people unemployed, how are we going to pay for the imports, cheap though they may be? But will they be cheap? As I have pointed out Government needs revenue and the imported goods must be taxed one way or another (VAT or value added tax for example) so that the Government can recover the import duty lost. And so the imported goods will not be cheap. Since our people are likely to be unemployed following closure of our local industries, where do they find the money to pay for the imported goods?

41. The foreign companies can manufacture in Malaysia and employ our people. But why should they if they can go to low cost countries and manufacture there for export to Malaysia? Already they are doing so. The FDI is not coming in but worse still investors are pulling out in order to manufacture in low-cost countries.

42. Can we master the realities of globalisations? The poor countries together with ourselves have not really given globalisation, free trade, transparency etc sufficient thought. I think we are being carried away by a desire to embrace this sophisticated new idea of a world without borders. We need to think again, to think in depth.

43. We have done very well without globalisation. We have been selective but our borders have always been open. Everything that is produced by the countries of the world are available in Malaysia. But we have used our borders with sophistication, letting in goods freely in some instances and putting up tax barriers in other cases.

44. We are an independent nation. We have exercised our sovereign rights with circumspection so that we can grow our economy. If we submit to the WTO, to some extent we will lose our independence. We will have to accept codes which will hamstring us, rendering us impotent and incapable of protecting ourselves.

45. Basically we can do without globalisation. But if we don't submit and surrender some of our independence, the members of the WTO may take action against us, may try to stifle our economy by raising tariff barriers or even sanctions.

46. What we can try to do is to work together with other developing countries to reinterpret globalisation so as to enable us to compete fairly. We must be given time before removing our barriers in order to enable our industries to grow and be competitive. We need to push for fair competition, i.e. competition between those of the same strength. There must be handicaps for the weak in terms of market access and openings, in terms of stages of development, in terms of perks for foreign investments. The rich must not give free land and subsidise capital in order to draw FDI.

47. Every country should admit a certain number of foreign workers based probably on a percentage of the population etc etc.

48. There are a lot of things that can be done in order to level the playing field. If these conditions are accepted by the world body, if a world tax on those corporations or countries which benefit from globalisation are imposed, then Malaysia will be able to grow and to achieve the targets of Vision 2020. The whole world, including the very poor will grow. The world market will become rich and Malaysia as a trading nation will benefit and will grow.

49. The way forward is fraught with all kinds of uncertainties and dangers and only careful scrutiny and deep forward thinking will keep us on course to Vision 2020.