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" Making Globalisation Work: Measures to Encourage
Commonwealth Trade and Investment Flows "

The past three decades have seen a rapid pace of integration of the global economy. Anything that happens in one country's economy must have some effect on the economy of the world. Thus the collapse of the economy in a small country may cut off the world's supply of some products which would then affect the pricing of goods involving that product. The collapse may be due to natural causes or political upheavals but the effect is the same. In the most extreme case the gyrations of the New York Stock Exchange (NYSE) will be followed by similar gyrations in the stock exchanges of the world although the businesses and companies and the banks of the different countries have nothing at all to do with the NYSE.

2. No country can isolate or insulate its economy from the rest of the world. In one way or another the performance of the economy would depend on the economic situation in the rest of the world.

3. This inability to insulate is made worse by the speed of communication. Every little thing that happens anywhere is communicated to the rest of the world in real time. And invariably they have an economic dimension. Thus if there is a draught in Brazil coffee prices would go up. If there is a demonstration in a country tourists would cancel their visits and investors would put their money in another country.

4. All these would of course have an effect on the economies of nations, bad for some and good for others. The speculators love this. They would have a field day shuffling their capital from one country to another in their pursuit of profit maximisation.

5. But what if the reports through the wire services

are false or fabricated? What if the speculators invent rumours or make wrong forecasts deliberately or otherwise? The countries targeted would lose money as speculators dump their holdings of shares or commodities. People would suffer as they lose their means of livelihood. There may be riots and even bloodshed. All because some speculators want to make money for themselves.

6. How does a country or a businessmen insure himself against the gyrations of supplies and prices. Hedging is the answer. By buying or selling forward or by purchasing hard currencies the effect of the uncertainties, whether real or manipulated can be minimised. Indeed the smart ones can actually make money purely through hedging.

7. And so a new business is born. This is the business of insuring against gyrations in prices and in exchange rate fluctuations. It started off innocently enough as insurance against the unpredictable and the unexpected. It is a kind of gambling. Sometimes the hedger makes, sometimes the hedge funds make. It was all still fair and square.

8. But then the hedge funds found that they can easily manipulate the unknown and the unpredictable so as to win and profit every time all the time. The theory is as old as commerce itself. If you are big enough to monopolise then you can make certain of the prices by being able to fix them. Since you own all the supplies you are in a position to demand to be paid the price you name.

9. But why own the commodity? Why not simply control the supply of the commodity? This can be done simply by putting a small deposit on future supplies. If the supplies are not taken up only the deposit would be forfeited. On the other hand if the prices go up huge profits can be made.

10. Forward selling of non-existent commodities can also be made if there is a possibility that the price would fall below the price sold. That way the commodity could be bought at the lower price and delivered to the buyer who had bought at the higher price. Eventually real goods or commodities need not be involved at all. Fictitious goods were sold at current price for delivery later when the real goods have gone down in price and could be bought for delivery.

11. If commodities and goods can be traded in this virtual way, why not money itself? And so money or currency became commodities to be traded in the same

way.

12. The price of everything is determined by the willingness of a buyer to buy. To sell the price must be lowered until a willing buyer is found. The result is rapid fall in prices as more and more of the virtual commodity is offered.

13. In a borderless world the players with unlimited money can offer any amount of any commodity worldwide at continuously lower prices. The actual producers of the commodity will find the prices falling below cost resulting in huge losses. The real traders in real goods will often lose money but the speculators and manipulators will make huge sums without ever owning or taking delivery of any real goods or commodities or currencies. And whole countries and their Governments can go bankrupt because their products fetch prices below costs and their currencies lose their value. The loss is not just economic or financial but also social and political. Governments can and have actually fallen because of this trade in non-existent commodities, including money. Thus when globalisation enables free flows of capital, serious abuses can take place.

14. Yet globalisation can bring about a lot of good to the poor countries. If the poor try to raise themselves up by their bootstraps the process and the pace would be so slow that it would only result in their being left further and further behind. For the poor countries it would be like having to invent the wheel. But if the rich with their money, technology and marketing knowhow were to invest in the poor countries not only will the poor see big inflows of capital but they would acquire the skills and the technology to make quantum leaps in order to catch up with the rich. Thus with the technology and capital, rich countries through their multinationals can set up production facilities in the poor countries in order to take advantage of lower labour and other costs. The workers in the poor countries gain employment, incomes and skills. Their country gains through reduction in unemployment and through the injection of funds into its systems. Eventually these countries would learn enough about management and technology to start their own industries bringing even greater benefit to their people. And in time a poor technologically deprived country can become industrialised through this process. In the case of Malaysia, from being a country dependent on the production and export of only two commodities, tin and rubber, it has now become a significant exporter of manufactured goods. Today 80 per cent of Malaysian export is made up of manufactured goods. The per capita income of the country rose from 300 U.S.

Dollar to almost 5000 U.S. Dollar before the economic turmoil of 1997 - 1998. Thus the opening up of its borders to foreign capital and knowhow has benefited Malaysia tremendously. And it should benefit other developing countries as much if conditions are made suitable for the inflow of direct foreign investments.

15. Clearly globalisation and the borderless world have their up side and down side. They are not a panacea for all economic ills. While they can enrich the poor, they can also impoverish and even destroy the economies of countries and regions.

16. Globalisation is a concept invented by Man and as such it is not perfect. It can bring about a lot of good but it can also lend itself to abuses and give forth some of the most tragic results. Globalisation cannot be embraced in toto simply because it enables free movement of capital and trade. Free movements by itself does not bring benefit. For whereas capita inflow can create wealth, capital outflow, particularly rapid capital outflow can bring about economic and financial disaster.

17. As with every system invented by Man, good can only come about if the system is properly understood and managed. This is because there are always rogue elements in human societies and they will always abuse the system in order to reap high returns, whether economic, social or political. To minimise abuses all systems must be regulated.

18. Unfortunately in their enthusiasm, the great trading nations have insisted that along with globalisation there must also be total deregulation. They believe the market will correct itself. This is called the discipline of the market. In fact they believe the market will actually discipline the Governments, forcing them to be less corrupt and more transparent.

19. Idealists are always blind to the contrariness of human nature. Market players are not the most caring people. Their obsession is with profits at whatever cost to others. They are not particularly concerned about society and its well-being. The idea that Governments especially elected Governments should surrender societal care to the market is as welcome as letting wolves to guard sheep.

20. The world is nevertheless going through a process of dismantling rules, regulation and laws governing capital flows and trade in goods and services. The World Trade Organisation (WTO) is forcing the pace

simply because globalisation and deregulation are considered to be good in themselves and not because of the results they produce. And so when recently the free capital flows destroyed the economies of whole regions, the free market idealists refuse to recognise anything wrong with the system. They blame the lack of transparency and corruption of the Governments instead. That these self same Governments had obviously succeeded in rapidly developing their countries until the free-marketeers attacked them is ignored. The free-market just cannot be wrong. Only non-believers and heretics will fail to acknowledge this. As we all know the only way to deal with heretics is to burn them at the stakes. And figuratively that is what was done to the free-market non-believers.

21. A level playing field is a term invented by the rich to imply fair competition. But merely because the field is level is not enough for fairness and equitability to be achieved. The players on the field must also be evenly matched. In sports handicaps are common simply because it is acknowledged that certain participants are disadvantaged. In fact it is common in sports to grade the teams according to their ages and sizes. A heavy-weight boxer will never be pitted against a feather weight no matter how well-constructed and level the ring is.

22. Yet the emphasis in trade and investments is solely on level playing fields. If globalisation is going to benefit the world, then the relative strengths of the trading partners must also be given due consideration. It will not cost the superior partners much if handicaps are given to the weaker partners. Indeed in the long run it will benefit the superior partner also, for the prosperity achieved by the weaker partner due to the privileges will make it a much more viable market, a market that is sustainable for the rich.

23. Just as we should rethink globalisation and deregulation, we should talk no more of level playing fields without talking also about the relative strengths of the parties concerned and the need to award handicaps. One should remember that it took the developed countries of Europe almost 50 years to bring down their trade barriers against each other and even then not completely. And the European countries are more evenly developed than the other countries of the world today. Surely a globalised world should not be equated with the union of the European countries where borders are now more or less removed, and access is more or less open to everyone. Probably over a period of centuries the countries of the world can be expected

to do away with borders and become as unified as Europe. But many people have only just emerged from colonial bondage and they value the little freedom that they have too much to become apparently equal citizens of the globe. They suspect that they would not be really equal citizens. They suspect that they would once again revert to being subjects of the strong and the powerful, who only incidentally happen to be their former colonial masters.

24. Provided handicaps and privileges are accorded the weak countries, provided that certain rules and regulations remain, there is every possibility that globalisation will help the developing countries to catch up with the developed. In fact in certain areas they can be actually strong and competitive. Thus where natural products and labour are of prime importance they can be actually more competitive than the developed whose commodities have been used up and whose labour cost is extremely high.

25. There is a need also to consider the terms of trade. For decades now the commodities produced by the poor countries have appreciated in price at a slower rate than the manufactured products they import from the rich. This means that the poor have to sell more and more of their commodities in order to buy less and less of the imported goods they need. The result is that the poor are getting poorer while the rich are getting richer.

26. The rules of supply and demand, of market forces must of course prevail. But the prices of commodities are not always governed by these rules. Far too frequently the prices are determined by speculators, their forward purchases and their short selling activities. Invariably the poor producing countries are the losers for they are not involved in speculative trading.

27. On the other hand the cost of the goods they buy are often the result of artificially inflated costs, including the very high wages paid and the high cost of other services in developed countries. Since the cost of raw materials is usually a small fraction of total cost, cannot the rich simply pay more for their raw material imports? Market forces may not be involved when doing this but must market forces always take precedence over human welfare?

28. If trade is to be equitable, then the problem of the terms of trade must be addressed. The poor commodity producers must be paid higher prices roughly in keeping with the rise in the price of the

manufactured goods which they import. In the long run the rich would still benefit for when the poor commodity producers are enriched through better prices, they will make better markets for the products of the rich.

29. A globalised world would be meaningless unless it is an enriched and an equitable world. Deregulation, borderlessness, free flows of capital while enriching the already rich must also contribute toward the rapid and equitable growth of the poor. They should also enrich the world. It is not globalisation or deregulation or borderlessness or free capital flows which is important. It is what they can do for world trade, for economic growth and for alleviating the poverty of the world that is important. If they can then we should all welcome these ideas and concepts. If they don't, if they bring about more misery to the already miserable, then, notwithstanding their being in keeping with the times, notwithstanding the advances in technology, the rapidity of communication etc, they should all be rejected.

30. The purpose of commerce is not merely to make money for some people. Commerce is undertaken because of the need to meet demands for goods and services. Meeting these demands is the *raison d'etre* of trade, profit is actually a by-product of meeting these needs.

31. The great marketeers of the world have since made trade as a milch cow, solely as a generator of profits. With this, real demand has been made subordinate to the making of money by creating demand where there is no demand. Thus exchange rates of currencies are needed in order to facilitate trade. The amount required is only to cover the actual cost of the goods traded. But the currency traders created a market in currency, created demands which have no relation whatsoever to the actual trading needs. In the end trade in currency has become 20 times bigger than world trade and huge profits are made through a totally artificial demand and supply. There is not that much of money in the world, but no matter. Even if the currency does not exist, trade in it can still take place, and huge profits can still be made. The misery that these profiteers create is a matter of no consequence, for trade is no longer about meeting the demands for goods and services. Trade is just about trade, the serious business of making money in any way at any cost.

32. Globalisation as presently interpreted simply means the enlarging of the area and the potential for those with the means to make even more money for themselves. What happens to those without the means does not seem to matter. In fact what happens to

anybody else, to society at large, to nations and regions does not matter. Only the profits for the traders matter. And so free flows of capital have decimated the wealth of the tiger economies of East Asia. Sadly the currency traders gain only a fraction of the wealth they destroyed as their profit. Obviously for the world there is a net loss of wealth.

33. If globalisation is good for the world then everyone should benefit from it. Obviously it is not only not benefiting everyone but it is hurting many. We need to rethink globalisation and reinterpret it.

34. The Commonwealth is a grouping of rich and poor nations bound by historical ties, an ability to speak a common language and a roughly common system of Government and laws. Without doubt our world view, our perception of things are also roughly similar. We still have the capacity to think our own thoughts and to act on them together. With the considerable influence we wield we have often been a force for the good. With regard to globalisation we need to ensure that our members and other countries do not suffer because our individual voices are insignificant in the WTO especially. We need to achieve a consensus on globalisation and then we should speak with one voice, especially in the WTO.

35. Globalisation may be an idea whose time has come but that alone should not mean we should all meekly accept it. We must ensure that it will be for our good, individually and collectively before we do. Some of us have already had considerable experience of the globalised free flows of capital. We have benefited but we have also suffered when there are abuses. Our experiences must be used to devise and improve the idea of globalisation so as to reduce the abuses and so help realise the good that globalisation promises.

36. The Commonwealth is a representative segment of the world. Perhaps we should try our interpretation of globalisation among us first. We should devise rules and regulations for capital flows so that there will be economic stability rather than turmoil. Free trade need not be full of uncertainties and tumult. There need not be excessive gambling and speculation simply because free trade enables them. If in order to benefit all some regulations have to be put in place, there is no reason why not. Trade has benefited the world immensely. Currency trading is said to be 20 times bigger than world trade. But what do we have to show for it? The world is not 20 times richer. Instead the world is very much poorer. True a few currency traders and banks have become extremely rich. But surely trade is not about making a few people very, very rich. As I said earlier trade is about supplying

needs and demands. This is basic and when we find trade has been abused bringing disaster with it, we have to go back to basics.

37. If the Commonwealth wants to see trade and investment flows bringing with them prosperity in a globalised world, the Commonwealth must be willing to challenge conventional wisdom and propose rules and regulations to make free trade create wealth and not destroy it.