

**SPEECH BY THE HON TUN DR MAHATHIR BIN MOHAMAD AT THE REGIONAL GEO  
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**“Malaysian Model as Alternative Model of Globalisation Governance”**

I feel much flattered to be asked to talk about a Malaysian Model of Globalisation. But with your indulgence I would like to say something about Malaysia first, about why we seem to be recalcitrant, unorthodox and unconventional, and fond of doing things our way. There is a history to this, which may make others understand why we are what we are, seemingly opposed to everything that the rest of the world wants to do.

2. Malaysia has always been a trading nation. 1800 years ago its people were already gathering jungle produce like gum, lacquer and scented wood to trade for handcrafted products of lacquer, silk etc with neighbours.

3. Being at the crossroads between India and Arabia in the West and China in the East, Malaysian Peninsular ports provided halfway shelters for water and victuals. Malacca grew in importance in the 14<sup>th</sup> Century, and quite naturally became a trader's port for Malaysian produce and Malaysian imports. Arabs, Indians and Chinese traders rested in Malacca, in between monsoons. They submitted to the local customs and practices and never sought the help of their own country if for some reason or other, they were arrested and punished by local authorities. They never expected extra-territorial rights.

4. But then came the Europeans, initially represented by the Portuguese. They came, like the rest, to trade, to procure directly the spices, which had previously been available to them only via the Silk Road, or from Arab traders overland via the Red Sea.

5. But the European traders were different. They liked to secure their supplies, to create monopolies in order to get the best prices. And so they came in armed merchantmen, insisting on setting up fortified trading posts all along the way. They wanted to corner the trade. The British, Dutch, Spanish and Danes fought each other for monopolies of the spice trade. They never respected local laws and customs. And eventually to ensure supply monopoly they conquered their trading partners in Asia, making them their colonies. Malaysia was conquered first by the Portuguese, then the Dutch and then the British. Malaysia was also invaded by the Japanese because the European colonisers denied supplies, including Malaysian rubber and tin to the Japanese.

6. Perhaps now you can understand why Malaysia is leery of any proposal for improving trade. It was trade with the Europeans that led to us being conquered and colonised. We had no problem with the traders from Arabia, India and China. But with the Europeans we had any number of problems. We therefore wonder whether the present proposals for globalisation and free trade will not again bring problems for us, bring back colonisation of some kind, or at the very least hegemonise us.

7. As a trading nation we should really welcome any proposal to improve trade. Under British rule Malaysia became the world's biggest exporter of tin and rubber. We should really have been very rich. But the tin mines and rubber plantations belonged to the British. The rubber market and the Metal Exchange were in London. And all the wealth flowed to Britain. Thus at the time of independence Malaysia's per capita income was only 300 US Dollar. Three quarters of our people lived below the very low poverty line. We were set to join the ranks of failed newly independent countries.

8. But today despite a population that has grown from 5 million to 25 million, the per capita income is well over 4000 US Dollar. Malaysia is the 17<sup>th</sup> biggest trading nation in the world with total trade of almost 200 billion US Dollars in 2003, equivalent to twice the size of the Malaysian GDP. If you consider that Japan's trade is only 20% of its GDP, you can understand how trade dependent Malaysia is.

9. Then why is it that Malaysia apparently does not welcome globalisation and trade liberalisation? Well, in the first place it is not true that we do not welcome globalisation and more free trade. It is the interpretation of what is meant by globalisation and free trade that worries us. Our past experience of trading with ethnic Europeans is not very assuring. We fear that free trade will not be fair trade. Frankly we fear our commerce being monopolised again, and maybe we will again be colonised.

10. Is this fear justified? Yes, I think it is. Already we are seeing moves towards monopolies or at least oligopolies in many businesses. Mergers and acquisitions are creating giants of the corporations of the US and Europe, against whom few can compete.

11. Let us look at the automotive industry. Many of the makes like Austin, Morris, Simca, Taunus, Studebaker etc have disappeared. If the brands are still around it is because the giants have taken them over. Rolls Royce, Jaguar, Holden are now subsidiaries of the giants like General Motors, Ford, Mercedes Benz and others.

12. The small car makers cannot compete with these giants. They will be taken over and in time they will disappear.

13. We have a small automotive industry in Malaysia. Protected, we have survived. But left naked we will be swallowed up, we will disappear. And with it goes not just our national pride, which is important to us, but also our design and engineering skills that we need in order to join the ranks of the developed nations. We do not want to be working for other people all the time. We want to be our own masters.

14. It is the same with other industries. It is the same with banking in particular, because banks can make or break not just people and business, but also whole countries.

15. The big banks of the rich countries are merging and acquiring each other so rapidly that most of them now have more money than most national Governments or even countries. If they can operate in any country unrestricted, the chances are the small national banks will be eliminated, swallowed up. The international banks can afford to lose in any country because they would be making a lot in the other countries. The national banks cannot afford to lose because they operate only in their own country. Two or three years of losses by a national bank, then it is ready to beg for a takeover by the international giants. Once the local competitor is eliminated there would be no need for the big banks to make losses. They can now raise interest rates etc and deal only with big business. Big banks don't care for the small man, small businesses. The result will be a decline in medium and small businesses following the disappearance of the local banks.

16. Giant corporations are said to be more efficient, more cost effective, more able to afford costly research and development and introduce new affordable products. But we have seen how giants also collapse. Enron, Globaldotcom, Arthur Andersen; they have all collapsed. They have cheated. Mercedes Benz is a great company but is unable to turn around Chrysler or Mitsubishi Motors. Several big banks have failed.

17. Big is not always beautiful. Big is often ugly. And when they fall they drag down everyone with them. God help us if these giants rule the world.

18. Free trade is touted as the best way to increase trade and enrich everyone. But what is free trade? Is it just uncontrolled trade in which anyone can do what he likes? Or is it just tax-free trade? Or is it equitable trade in which imported goods receive the same tax treatment as domestically produced goods?

19. The British were the first to practice free trade. They prospered. Is it because of free trade per se or is it because others were not free traders, that Britain had the comparative advantage? Would Britain become attractive if all the other countries of Europe practise free trade?

20. Singapore is Malaysia's neighbour. It is very prosperous though it produces practically nothing for export. It trades in Malaysian and Indonesian timber, palm oil, rubber, pepper etc. It is able to do this because it is a free trader. Goods come in tax-free and are exported tax-free. Malaysia, Indonesia and the other Southeast Asian countries are not tax free. As a result people prefer to do business in Singapore with Singaporeans.

21. Singapore's prosperity is not because it is tax-free. It is because its neighbours are not tax-free.

22. Malaysia lost a lot of trade and business to Singapore. Then Malaysia decided to abolish import duties on expensive luxury goods. Immediately tax-free shops sprout up in Malaysia. And a chunk of Singapore's business flowed to Malaysia. With lower cost of doing business in Malaysia, tax-free luxury goods are actually cheaper in Malaysia than in Singapore. Clearly Singapore's free trade in luxury goods depended on Malaysia not being a free trader as well. Once Malaysia practices free trade the competitive advantage of Singapore is lost. Supposing all the countries of Southeast Asia also practice free trade then no one will really have a competitive advantage from free trade per se.

23. If we then look from the other direction i.e. if all the countries of Southeast Asia impose the same percentage of tax, then none would have a competitive advantage either. The situation would be like all countries practising free trade, except that Governments earn revenue from trading activities.

24. It is therefore not free trade but inequality of taxes, which gives an advantage to a country. Once everything is equal there would be no more advantage for anyone. And so if every country practices free trade, then no country will do any better than any other country. There will therefore be no increase in trade. Similarly when every country imposes the same tax rates no country will do any better than other countries. Total trade will not be much reduced because there will be an increase of disposable income all around. As with the increase in oil price following the first oil shock, adjustments would soon follow and growth would be back to normal. I am afraid the latest increase in oil prices will need a much longer time to adjust.

25. What would be damaging for a country is when the tax on imports are equalised by excise duties on local products. When the competition is between small local industries against giant foreign industries, obviously the local industries will lose in the local and foreign markets. This is because the giants have economies of scale and other competitive advantages. If trade is to be fair and free, competition must be between equals, not between giants and dwarfs.

26. So what is Malaysia's model of globalisation? Actually Malaysia is quite happy with things as they are. Our trade and our economy have been growing even without any changes in the world trade regime. We provide protection for some of our industries but otherwise goods and services can enter Malaysia quite freely, i.e. if they pay the same import duties. No one is disadvantaged, except perhaps against a few local products, which are protected.

27. Malaysia welcomes globalisation. What it does not welcome is the interpretation of globalisation. In the first place the objective of globalisation seems to be only free trade, free movement of capital, and free access of businesses into every country. The world is going to be borderless i.e. the whole world will be treated for the purpose of trade as one country. Businesses irrespective of their countries of origin will operate in every country as if they are in their own country. There will be free and open competition. No discrimination against anyone on any ground.

28. Competition is good. The best man will win. So the best products will sell. But we know that in sports for example contestants must be in the same class or category. Children do not compete with adults. Men do not compete with women. In golf even when the players are the same age and size, handicaps are given in order to have fair competitions.

29. So if we are going to have free trade, the competition must also be between entities of the same category. Giant corporations must not compete with dwarfs, midgets. And giant developed countries should not compete with little developing countries.

30. If they want to compete then there must be handicaps. The giants must be cut down to size so to speak. They must pay penalties e.g. higher taxes. Developing countries must be given sufficient time to upgrade and to develop their industries, and their banks. Research and development in the poor countries must be subsidised or they be given easier and cheaper access to the so-called Intellectual Properties of the rich.

31. Talented personnel from poor countries should be regarded as Intellectual Properties too. Attracting them away from their countries should incur payment of royalty to the countries concerned. It is like paying for a football player from another club. Remember that the poor countries had spent a lot of money on the education of their people. It is grossly unfair that in the end the rich countries would pick and choose the best ones from among them. The poor countries after investing so much in education would get only the leftovers, the duds and the failures.

32. Countries should not take unilateral action. There should be a proper International Tribunal to decide when a country has defaulted. No country may impose countervailing duties for example until the tribunal has decided that it is justified. Otherwise the big countries would be holding the sword of Damocles over the heads of small countries dependent on their limited number of exports.

33. Quality standards must be determined by an International Panel. Countries may raise their own standards higher but may not impose it on goods imported, if they meet International Standards.

34. Presently globalisation is confined to trade and capital flows. If the world is to be borderless, then there should be no restrictions on the movements and settlements of people. International law enforcement should be by international bodies. It is unethical for a country to be the policeman, the prosecutor, the judge and the executioner.

35. The World Trade Organisation (WTO) should not be exclusive. Every country should have a right to join it. No one should have a right to veto anyone's entry for political reasons for example. The WTO should benefit everyone, rich and poor, developed and developing.

36. We are aware that many countries cannot benefit from trade because of certain handicaps that they have. Some countries are inaccessible, lacking roads, railways, water supply, electricity, ports, airports etc. This makes their produce, their natural resources costly in the world markets. And because they cannot sell their produce, they cannot earn enough to build

the infrastructures needed to trade competitively. They are also not attractive to foreign investors. Consequently they will always be poor.

37. The world must build the needed infrastructures for them. There is no doubt that some countries and some corporations will profit from globalised free trade. In any country the successful businesses pay tax, corporate tax, on their profits to the Government. The tax is used to alleviate the hardships of the poorer people in the country and also to provide for needed infrastructure in the less developed parts as much as in the developed parts.

38. In a globalised world those who profit from globalised free trade should pay a small world corporate tax so that the poor countries of the world can be provided with needed infrastructure. The actual construction of these infrastructure projects can be done by the international body but even then the people and the country concerned will benefit from the construction. But they will benefit more when these infrastructures reduce the cost of their imports and give a better price for their exports. Eventually they will grow to become markets for the products of those who paid the taxes and also the others. Actually by enriching the poor, the rich will be enriching themselves also.

39. This way globalisation will benefit everyone, every country and not just the rich countries, which are able to trade and invest. Globalisation will then bring about a more equitable world where wealth is shared more fairly.

40. The world or global tax proposed need not be high. Only a small tax would be sufficient. The home countries of the global businesses will still get their taxes. No one would lose. But everyone would gain. Globalisation would become meaningful to all, to the rich and the poor, to the developed and the developing.

41. As I said Malaysia does not have an alternative model of globalisation.

42. But it has ideas; ideas that it would like to discuss with everyone, ideas that it thinks are better than those which have been mooted presently. Largely they are ideas about fair and equitable sharing of the profits and benefits from globalisation and free trade.

43. Malaysia is not being its recalcitrant self. If its ideas are impractical, or naïve, or bad, then point out why they are so. We are not rigid. We are flexible. The ideas can be modified or changed. They can of course be rejected. What is the harm in considering them, discussing them? At the very least our minds would be exercised. But who knows, they can give birth to an alternative model and we all will be the richer for it.