

An Open Letter to Ms Victoria Kwakwa, the World Bank Vice President for East Asia and the Pacific

Dear Ms Victoria Kwakwa,

I read and re-read your interview that was published in page 3 of Starbiz on 1/1/2018, and frankly, I was disappointed. For though you identify sluggish global economic growth and rising inequality as among the major challenges the world is facing, nowhere in your interview do you specifically identify the underlying causes of these challenges. But then you go on to propose that ASEAN should increase trade integration by reducing non-tariff barriers and improve nutrition and invest in human capital so as to shore up productivity which you claim is declining.

I am all for improving nutrition and investing in skills. These are good targets in themselves. But is your contention that productivity growth in ASEAN has stagnated true? Isn't the problem the manner by which mainstream economists measure productivity? The mainstream formula is output (measured by the prices of the goods produced) divided by the man-hours required to produce those goods. Surely you, an Economics PhD holder, must know that by this formula, an ordinary production line worker in a factory producing semiconductors in the Silicon valley is 15 times more "productive" than a worker in an identical factory in Bayan Lepas, Penang? Same process, identical machines, similar output when measured in number of components produced per day per worker, but "productivity" is 15 times less in Bayan Lepas because the price of the product at the factory gate is 15 times lower compared to the price at the factory gate in California. So is productivity really the problem?

It is common sense that one needs to identify the real causes of the problem and then address these if one is serious about overcoming the problem. So why is the World Bank tip-toeing around the real issues. You have massive amounts of economic data, and you have many super-intelligent people in your staff. Why then the obfuscation?

I am sure the World Bank is aware that more than 70% of international trade is controlled by the 200 largest corporations, and that they use low paid workers in Asia to produce products cheaply, but mark them up 300 to 500% before selling them in the US or EU markets, thus making fabulous profits that they stash away in tax havens.

The World Bank must also be aware that over the past 30 years, off-shoring of production from the US and the EU to low wage economies in Asia has led to a marked reduction in the aggregate income of the working people in advanced countries. At the same time, the competition fostered by the big multinationals among the feeder factories in Asia has kept the wages of Asian workers low. The net result of this is stagnation of aggregate demand. This translates into a disincentive to further investment in providing goods and services to ordinary people as their purchasing power is limited. A low level of investment leads to low job creation and chronic unemployment.

The propensity to consume goods and services decreases with rising income. The very wealthy will seek to invest the major part of any extra income they get, whereas the poorer half of the population would spend most of any additional income. When the wealthy cannot invest further in the production of goods and services (because of sluggish demand growth) they look to other

avenues, and thus you get stock market and other financial asset bubbles, and the sky-rocketing of land and property prices (which adds to the misery of the bottom 80% of the population because housing then become increasingly unaffordable!)

So Ms Kwakwa, would you agree that too much of global income is going into the hands of a small minority of perhaps 0.1% of the global population and that this is the primary cause of sluggish economic growth, stubborn unemployment, exploding property prices and casino like conditions in the financial markets? If we can agree on this, then the next step is easy. We have to find ways to distribute global income more fairly. Mr Bernie Sanders proposals to increase minimum wages and to “make the billionaire class pay their fair share of taxes” is a good place to start. Not only would that be just and improve the quality of life for millions of our citizens, it would also stimulate aggregate demand, create investment opportunities, grow jobs and allow governments to reduce sovereign debt and spend more on social welfare nets. It would be a virtuous cycle. The SMEs and other honest businessmen will also be beneficiaries.

And yes, further economic integration of ASEAN countries could be part of the above solution, but it would be an integration exercise that is mindful of the need to curb tax avoidance by the billionaires and of the need to stop and eventually reverse the “race to the bottom” in terms of wages and environmental standards that many poor Asian and African countries are now trapped in because of their desperation to attract foreign investment.

It would have been great if you could have pointed out these truths to the ASEAN political leaders you met during your trip here Ms Kwakwa, and started a serious discussion of how the measures suggested by Mr Sanders could be phased in. Many of our political leaders are in awe of your institution and you would have done the ordinary citizens of ASEAN a big favour! But instead, you chose to obfuscate and thus further confuse the already addled minds of our political leaders. Pity, but I suppose covering up for the super-rich is one of the functions of the World Bank.

Sincerely,

Jeyakumar Devaraj
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