**Trade and Economic Justice in Malaysia**

*“Liberalise the economy, foster international trade and bring in more foreign investment*”. This is the standard advice given to developing countries by institutions such as the World Bank and the International Monetary Fund (IMF). These are held to be the major policies for developing the economy of the country. But should there be caveats to this advice, and are there limitations to these policy prescriptions? Let’s take a closer look at the experience of Malaysia to evaluate this crucial issue.

**Trade and the Development of Colonial Malaya**

The economic development of Malaya was based on trade – on the export of raw materials to Britain. British firms planted rubber and opened tin mines in Malaya to supply these raw materials to the industries of Britain, then the dominant industrial power in the world. The large scale production of rubber and timber required roads, railways, port and plenty of labour which then required housing, food, health care etc. These requirements spurred the development of towns throughout the west coast of Peninsular Malaysia.

The Federated States of Malaya enjoyed a much faster rate of development under British colonial rule than did Sumatra under the Dutch although Sumatra has a similar climate, was as unpopulated as Malaya, and is much larger in size. This was because Holland did not have as big an industrial sector and only a fraction of the demand for tin and rubber that Britain had.

Up till the 1960s, Malaya remained the biggest exporter of rubber and tin to the West, and Malaya/Malaysia gained quite immensely from this1. As a result, at independence Malaysia had a better developed infrastructure than most of the countries in South East Asia and in Africa. We also had a better developed Civil Service and a higher per capita income than many of the former colonies.

**The limitations of commodity production**

Rubber remained the largest export of Malaysia up till the 1970s when it was superseded by oil palm. Malaysia still is a major producer of rubber – we now lie third, at about 1.2 million metric tons per year, or 9% of global output (FAO yearbook). Thailand, and Indonesia have overtaken us in rubber production and India is close on our heels.

The problem with rubber and also other agricultural commodities is that their price on the international markets has declined in real terms over the past 60 years. RSS1 is still trading at between RM 4 to RM 7 per kilogram (2019 ringgit). It was RM 2 – 4 per kg in the 1960s (1965 ringgit)2. Meanwhile the price of higher end manufactured products has soared. A state of the art Volvo in 1965 cost the princely sum of RM 9000. Now it would cost 40 times more in today’s ringgit. In other words the terms of trade have deteriorated for commodity producers. Our products have depreciated in price (in real terms) while the prices of the machinery and manufactured products have gone up markedly.

**Why have commodity prices remained low?**

The simple answer is over-production. Newly independent countries in Asia and Africa needed foreign exchange to fund the import of machinery and manufactured goods to develop their countries. Producing aircraft carriers for the US or nuclear reactors for France was a bit beyond their capacity, so they opted for intensifying production of agricultural commodities for the West and Japan. When you have millions of smallholders producing an agricultural commodity for the world market dominated by a handful of large firms (for each commodity), you have a severe imbalance in market power. The buyers have the capacity to create stockpiles and thwart any effort to withhold exports in a bid to shore up the international price. The producers were unable to form a similarly strong cartel to shore up prices. Malaysia tried intervening in the tin market in the 1980s and got its fingers badly burnt!.

So in this instance, producing agricultural commodities and trading in the global market is not a very successful strategy to generate wealth for the poor in developing countries. Malaysia has roughly 1.5 million people working in the agricultural sector – rubber, palm oil, padi, coconut, pepper and cocoa smallholders. These groups remain among the poorest in our society despite the various subsidies that the government extends to them.

**Manufacturing for export as the engine of development**

Manufacturing for the export market was a strategy that was pioneered by Tun Dato Seri Dr Lim Chong Eu in the early 1970’s when he was the Chief Minister of Penang. Free Trade Zones were set up, land and electricity supply were made available, corporate and export taxes were waived and foreign firms were invited in to produce for the export market. Many large electronic firms from the US, Western Europe and Japan shifted production to Penang as labour costs were much lower and draconian Malaysian labour laws could be relied on to obstruct trade union activism. Malaysia thus became and remains to this day the largest exporter of electronic components in the world. In 2018 RM 381 billion worth of electrical and electronic products were exported, making up 38.2%% of our total exports. (Martrade)

But unfortunately, the workers in our electronic factories are not doing very well on their wages of RM 1500 or so per month. Bank Negara Malaysia in its 2017 Annual report mentioned that the median wage of Malaysians was RM 1703 in 2016. The same report also said that for a family with 2 children residing in Kuala Lumpur to live “free of financial stress” they would need a monthly income of RM6,500. So a wage of RM 1500 isn’t quite enough!

**Why are wages low in Malaysia?**

The World Bank and the IMF keep telling us that wages in the developing world are low because our productivity is low. Therefore, according to the WB and IMF we have to educate our work force better and also open up our economy to big foreign companies so that they can bring in the latest technology and boost our productivity.

But the productivity argument does not explain why a worker in Bayan Lepas Penang gets only RM 1500/month when a worker in California who does the same job is paid USD 3750/month (RM 15000). Similar machines, almost the same technology, and similar output in terms of components produced in a day, but a 10 fold difference in wage. Or take the case of a school cleaner. In Malaysia they are paid the minimum wage of RM1100 per month. In the US, a school cleaner would also get the minimum wage – USD 15 per hour – works out to RM 10,000 per month. Clearly it is not a difference in productivity. Something else is at work.

**Global chains and Outsourcing**

The manufacture of many products is now divided and spread out to different geographic locations. Research and development may take place in the US, the production of electronic components in a few other countries, the assembly of the product (eg hand-phone) in yet another country, and finally the product is shipped back to be sold in the US or EU market. The large multinational that oversees the entire production chain is the dominant player as it has the brand name, the R&D capacity, patents to protect its technology (intellectual property rights) and most importantly, access to the consumer markets of the affluent West.

In this set up, the production of the semi-conductor which cost X ringgit when produced in the factory in California, is outsourced to the Malaysian company (MCo) that is provided the machines and equipment by the Multinational Company (MNC) to produce the same component. But that component is bought by the MNC at perhaps 0.12 ringgit ie one eight of the price it would have fetched in the US. If MCo makes too much of an objection, then MNC will shift its orders to another Malaysian Company that is less demanding or to a similar company in Vietnam or Thailand. MCo is thus pressured to “behave” and not ask for too much as it is dependent on orders from MNC for its business. In this manner the large MNC uses its dominant position in the production chain to squeeze the companies in Malaysia, Thailand and in Vietnam and these ASEAN companies keep wages down so as to make some profits themselves.3

This predatory behavior on the part of MNC is what the World Bank and IMF are trying to cover up when they give us the drivel regarding productivity. Both in the case of trade in commodities and in the export of manufactured components, the dominant position of the multinational companies have depressed the prices of the products being exported. A lopsided international trading system that favours the largest companies, and not low productivity on the part of workers is the main cause of low wages in Malaysia and other Third World countries. And every month, the developing countries are being shortchanged by the trading system in place and are losing billions of ringgit to the big MNCs – billions that could have been used to address poverty issues, mitigate climate change, etc.

**Free Trade Agreements consolidate the dominance of MNCs**

The World Bank and the IMF keep encouraging developing countries to sign up on “Free Trade” agreements. They are held up as the best way to increase our exports and to attract new direct investments. But the problem with these “Free Trade” agreements is that they cover a lot more than trade. The TPPA (Trans Pacific Partnership Agreement) for example devotes a lot of space to -

* Protecting the rights of the foreign investors.
  + They should have the right to invest in any sector of the economy that is open to local businessmen (“National Treatment”)
  + They must be free to repatriate their profits without any restrictions.
  + There should be no requirement for them to employ locals, transfer technology or source local inputs.
* Enhances Intellectual Property Rights
  + Laws regarding patents are strengthened to benefit the patent applicants.
  + Criteria of “patentability” are made more lax
  + Penalties for patent infringement are augmented.
* Gives MNCs the right to avoid the local court process and refer their dispute with the host government to International Tribunals.
  + “Expropriation” is loosely to cover actions that lowers the profits of the investor
  + Investor profits is given precedence over health and environment issues

We were saved from this lopsided agreement by the election of Trump. But the other Trade Agreements that are being negotiated around the world have many of the toxic clauses mentioned. It is frightening to note that several key leaders within the current government in Malaysia believe that we need to sign up on these sort of agreements to demonstrate to the foreign investors that we are “business friendly”.

**Limitations on using the “social wage” to transfer wealth to the B40 population**

There are people who argue that if the wages of workers cannot be raised to a reasonable level, strengthening the safety net and expanding the provision of basic necessities to the people at greatly subsidized prices would be another modality of sharing the wealth of the nation with the poorest 2 quintiles of the population. Universal old age pension, subsidized public transport, subsidized housing, better funding for public health care, free education at tertiary level, cash transfers for the B20 (bottom 20%) families are all ideas that will greatly reduce the financial stress on the B40 population. But structure of the global economy makes this idea quite difficult to attain.

It’s a question of adequacy of funds. The Malaysian government already provides a “social wage” at present – primary and secondary school education and health care are virtually free; management of emergencies (fire, flood, etc), provision of welfare payments to the very poor and security services – are all largely paid for by the Federal Government. But even at this modest level of expenditure on the social wage, the government is running a deficit of RM50 billion, or about 17% of the total budget for 2019. This has to be met by borrowing.

Federal Government debt is already RM 750 billion, or 54% of the GDP, quite close to the 55% ceiling that the Malaysian Government has set for itself. Interest payments on this debt takes up some RM 50 billion annually. And we need to float new securities of about RM 75 billion in 2019 to roll over the bonds that are maturing this year. That is on top of the RM 50 billion of bonds that we need to float to cover our budget deficit for 2019 – a total of RM 125 billion has to be borrowed in 2019.

Of course we could borrow more and increase overall debt. But that would lead to a downgrading of our credit status by the international evaluators and to a higher cost of future borrowings – as we will need to offer a higher coupon rate for the bonds we float in the future.

Increasing corporate taxes in an environment where other ASEAN countries are lowering theirs would be seen by most governments as too risky. It might cause the transfer of the headquarters of big companies to locations with lower tax rates. Then profits made in Malaysia could be channeled to the new HQ through transfer pricing. Our corporate taxes might actually go down.

**Unfair terms of Trade obstructs Economic Justice**

The rules governing the global economy greatly favour the richest corporations and the richest 0.1% of the human population. These rules enable the richest corporations to grossly underpay our workers and our small farmers and thus amass huge fortunes. But Malaysia is deeply integrated into the world economy. In 2018 our exports totaled RM 998 billion. This is 70% of the value of Malaysia’s GDP. So even if the international trading system is lopsided and it favours the richest MNCs, Malaysia is not in a position to disengage from the world economy.

However, Malaysia and other developing countries which are also similarly affected need to work on challenging and reducing the imbalances in the global economy. We need to identify the mechanisms that siphon away wealth from our countries and devise policies to counter these. For example, could ASEAN countries get together to stop the race to the bottom with respect to wages? Most ASEAN countries wish to attract foreign investment. Keeping wages down is one of the strategies all these countries use. Could we negotiate an agreement that sees all ASEAN countries increasing their minimum wage by 10% per year for the next 5 years?4 This is do-able as it will not undermine the comparative advantage of any of the ASEAN member states vis-à-vis one another. Such a policy would not only alleviate poverty in all ASEAN countries, it would also grow aggregate demand in the ASEAN region and create new opportunities for businesses to invest. This in turn will generate jobs. So it truly a win-win-win kind of situation. But it needs to be worked on.

Another issue we need to look at collectively is the issue of tax avoidance. The big companies use transfer pricing and other accounting tricks to siphon out the profits earned in developing countries to tax havens. So not only do they make huge profits from paying our workers a fraction of the value of their labour, these companies then have the audacity to escape paying taxes on these profits. We need to see how this particular modality can be stopped.

And we need to remember that we have the ordinary people in the USA and the EU on our side in this endeavor to reign in the super-rich. For just as they escape paying taxes in the developing countries, the super-rich individuals and corporations also manage to avoid paying taxes in their home countries. This is one reason why sovereign debt in many Western countries exceeds 70% of their GDP and why the social security net is being reduced through an endless series of austerity measures. The ordinary people in the advanced countries are also getting disenchanted with an economic system that favours the super rich.

We have a world to win. But we really have to work hard and work smart!

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Notes

1. Bengal, also a British colony had a completely different experience. There, the British destroyed manufacturing – textiles and shipbuilding – so as to remove competitors to British industry. And Bengal being quite densely populated was amenable to large scale plantation development. Colonialism actually caused the economy of Bengal to regress.
2. The cumulative inflation rate from 1965 up till 2018 is about 450%.
3. An excellent exposition of this analysis with many empirical examples can be found in *Imperialism in the 21st Century.* By John Smith. Monthly review Press*.*
4. Could also incorporate this in the ASEAN Free Trade Agreement and even add provisions for penalties in the form of tariffs if any member country did not keep to the agreed schedule to increase minimum wage.