THE INIQUITY OF GLOBALIZATION

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Presentation outline

- Globalization and the economy
- Financial liberalization in Malaysia
- Financial liberalization & credit allocation
- Globalization, contagion & income inequality
- Conclusion
Globalization and the economy

- Globalization – the implementation of socio-economic policies which give priority to market forces.
- Globalization gathered momentum in the 1980s, thus world cities came to the fore.
- Most visible aspect of globalization – Globalization of the economy - trade liberalization, FDI and capital flows
- Led to change and transformations
Globalization and economic changes

- Resultant changes had been radical especially in the developed economies. Three economic sectors flourished in response to the globalization process: banking, insurance, and specialist services.

- This helped the formation of world cities; According to Sassen (2006), the mark of a world city is its disproportionate share of finance and business service headquarters.

- In turn, this helped shaped the dichotomized labour force – on the one hand, professionals specialized in control functions; the other, a pool of low-skill workers.
Financial Liberalization and the economy

- A doctrine mooted by McKinnon and Shaw in 1973
- Advocate a market-orientated economy using price mechanism to allocate resources
- They provided convincing theoretical ground to advocate a finance-led development strategy for the developing economies
Financial liberalization in Malaysia

- Financial liberalization – introduced in 1978
- Financial liberalization process was ‘on & off
- Liberalization of the financial sector is fully liberalized on Feb 1991
- Liberalization of economy- to help provide the foundation for rapid growth of the manufacturing sector
Financial Liberalization and Credit Allocation

- Deregulation ought to result in more efficient credit allocation
- However, Financial liberalization often changes the sectoral allocation of credit
  - eg. Atiyas (1994),
- Resultant surge in bank lending and greater exposure to the real estate sector (Alba, 1999)
Financial Liberalization and Credit Allocation in Malaysia

Chart 4.1: Loans Secured by The Manufacturing, Property, Finance, Insurance & Business Services and The Transport & Communication Sectors
Financial Liberalization and Credit Allocation in Malaysia

Chart 4.2: Loans Secured by The Agriculture, Mining & Quarrying, Retail & Hotel, Stock & Shares and Consumption Credit Sectors
Financial Liberalization and Credit Allocation in Malaysia

Chart 4.3: Trendline for The Broad Property Sector

% of Loans from Commercial Banks

Year


Linear (Broad property)
Financial Liberalization and Credit Allocation in Malaysia

Chart 4.4: Trendline for Manufacturing Sector

Year:

% of Loans from Commercial Banks:
0.0, 5.0, 10.0, 15.0, 20.0, 25.0, 30.0

Legend:
- Manufacturing
- Linear (Manufacturing)
Globalization and economic crises

- The recent spate of economic crises (EAFC and global economic crisis) highlight the weaknesses of globalization:
  - Increased instability and iniquity of economic progress
- An IMF database that tracks financial crises over the last 30 years revealed – the occurrence of 124 crises
- Factors that contributed to the crises- financial liberalization and increased in global capital flows
Globalization and instability

A number of empirical studies have also found that liberalization of the financial sector has contributed to the banking crises (Demirguc, 1998, Kaminsky, 1999, Zhuang, 2002, Yee, 2004 & 2008).

- Contagion has become a common word with the advent of globalization
  - the collapse of the Thai Baht on July 1997 caused the contagion in East Asia
  - The collapse of Bears Sterns in US on March 2008 caused the still ongoing global crisis and hit mostly the world cities, the latest, being Dubai
Globalization & economy of the developing countries

- Globalization is also perceived as a means of ensuring growth, efficiency and equity.
- For the developing economies, opening up to international trade has helped a number grow.
- But, income distribution in a number of countries (China, Hong Kong, Thailand, Phillipines) has become more unequal.
Globalization and the economy of industrialized countries

- With globalization, industrialized countries experienced declining employment and widened income inequality.
- World cities like New York and London experience employment shifts: from industrial to service and to shift of manufacturing jobs to east Asia.
- Latest eg. Irene’s paper – “Asian labor has decimated North American mass production” as they sourced furniture form Asia.
- There’s a cost to internationalization - the trap of relative territorial immobility and the mobility of international capital.
Globalization and equality among countries

- Inequality among countries has increased too.
- According to Bende- Nabende (2002):
  - One fifth of the world’s people living in the highest-income countries had:
    - 86% of world’s GDP; bottom 1/5 just 1%
    - 82% of export market; bottom 1/5 just 1%
    - 68% of FDI; bottom 1/5 just 1%
Globalization and inquity of economic progress

- During economic prosperity, the wealthy gets the lion share of the wealth.
- During downturns, the more vulnerable segments of society (small business entrepreneurs, labourers ..) and in general those that had no role in bringing about the crises (e.g. borrow millions of $, ) bore the brunt of the burden. – e.g During the EAFC, millions of workers were laid off and small business entrepreneurs were facing credit squeeze.
- In this global crisis contract workers and part time wage earners are the first to be out of jobs.
Conclusion

- Contrary to theory, globalization did not result in efficiency and equity.

- Financial liberalization in Malaysia did not result in increased allocative efficiency - the share of services sector and property related credit increased at the expense of industry.

- Increased lending during the post Liberalization period is not necessarily a positive development.

- It might have made matters worse by causing the system to respond more flexibly to bad signals. E.g. The sub-prime mortgage crisis of the US.
Thank you