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Globalization, Competitiveness, and Asia's Economic Future by Ambassador John R. Malott

The Great Globalization Debate

When many people talk about globalization, they make it seem like it is a recent phenomenon. But globalization has been with us throughout history. When Arab traders came to Melaka centuries ago and brought not only their products but also their religion, that was globalization.

What makes globalization different today, and the reason why it is such a "hot topic," is its scale and its speed, and the way that technology – especially in telecommunications, but also in transportation – is changing the world for all of us.

Some people think the debate about globalization is whether it is good or bad. To me, globalization *just is*. We cannot stop it; we have to accept it, and adjust to it. Those countries, those companies, those people who adjust to a changing world will do better. Those who resist will suffer. The world keeps changing. But if we cling to the ideas and models of yesterday, we surely will pay a price.

Some people think that larger countries benefit from globalization, while smaller countries suffer. The World Economic Forum, best known as the sponsor of the annual Davos meetings, conducts an annual survey of global competitiveness. It reports that the world's most competitive economies – those economies which are best able to produce economic growth in the face of the overall structure of the world economy – often are the smaller economies: Hong Kong, Luxembourg, Singapore, Switzerland, New Zealand, Chile, Ireland.

A variation of the "large versus small" notion about globalization is the belief that larger, richer countries like the U.S. can weather global changes better than smaller, less developed countries. Hundreds of thousands of Americans, however, lost their jobs in the 1980s because of imports from smaller, less developed countries is Asia. Jobs lost, factories closed, companies bankrupt, communities in distress -- this was the American economic landscape for much of the 1970s and 1980s. That is when we had our debate about globalization – whether we should close our markets, whether we should make it difficult for U.S. companies to move their factories overseas to places like Penang and Kuala Lumpur, and whether we should negotiate, let alone sign, new international and regional trade agreements that would open our markets even further. For now, globalization appears to be winning – and that is the reason why the United States economy happens to be doing well today: We made the necessary adjustments to deal with globalization and a changing international economic environment, and moved in the direction of more openness and freedoms in our economy.

But the globalization debate in the U.S. is not over. The Congress has rejected fast track negotiating authority for new trade agreements. It still has not authorized additional funding for the IMF, because many question why American taxpayer funds should be used to "bail out" Indonesian banks or Korea *chaebol*. And this year -- an election year in the United States -- economists project that our trade deficit will grow by 50% to $300 billion. With the depreciation of Asian currencies, Asian exports to the world will increase, but the primary burden of adjustment will fall on one country -- the U.S. -- unless Japan carries out its responsibility to stimulate its economy and open its markets, and unless Europe does the same. Think what the reaction will be in the United States among our companies and workers when they see an extra $100 billion in foreign products coming in to displace what they have been making. $100 billion -- that is more than Malaysia's annual GDP!

Competitiveness and Asia's Economic Future

I mentioned the annual survey of global competitiveness that is conducted by the World Economic Forum in Switzerland. The advisor for that study is Professor Jeffrey Sachs of Harvard, who is well-known as a critic of the IMF. He says that competitive nations are the ones whose institutions and policies promote and sustain long-term growth, and the eight criteria the Forum uses to measure competitiveness include:

1. How open an economy is to international trade and finance
2. The role of government regulation
3. The development of financial markets
4. The quality of infrastructure
5. The quality of technology
6. The quality of business management
7. Labor market flexibility and human resources development, and
8. The quality of judicial and political institutions

Many of the most competitive economies in the world are small. Size is not a controlling factor, whether it is the size of an economy, or the size of the companies in that economy.

It is no accident that those economies which are doing the best in today's world are the very same economies which are the most open to foreign trade and investment. They are marked as well by less rather than more government control and influence over business decisionmaking, by less regulation but better supervision of financial institutions, by lower levels of corruption, by greater transparency and sharing of economic information, by an emphasis on productive infrastructure

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investments, by greater labor mobility, and by ease of market entry for new businesses.

The Heritage Foundation produces an annual list of economic freedom. It is interesting to see that the economies that rank high on the Heritage Foundations' "ideological" list of economic freedom also rank high on the "practical, real world" list of competitiveness prepared by the World Economic Forum – Hong Kong,

New Zealand, Switzerland, Singapore, Chile, Ireland, the United States. I would submit as well that those economies which have weathered best the financial storms in Asia over these past months are those very same economies – the freest, most open, and most competitive economies.

There are many competitive economies in today's world, and they share certain points in common, from Canada and the United States to Chile, from New Zealand to Taiwan and Hong Kong, and from Ireland to Switzerland. As we look to the future, let us look anew at the world, and identify those countries, those policies and practices, and those institutions which offer the best models for today's globalized economy.

John R. Malott is Ambassador of the United States to Malaysia. This contribution was adapted from a speech made in Kuala Lumpur on February 18, 1998.