# The Deceptive Game of Today's Capitalist Globalisation Evidence from Malaysia's Experience

**Md. Mahmudul Alam***
Institute for Environment and Development (LESTARI)
National University of Malaysia (UKM)
Selangor Darul Ehsan, Malaysia
*Email: rony000@gmail.com*

**Rafiqul Islam Molla**
Department of Economics
Faculty of Business and Law
Multimedia University
Melaka, Malaysia
*E-mail: rimolla@gmail.com*

**Md. Wahid Murad**
Business School, Faculty of the Professions
The University of Adelaide, Adelaide
South Australia, Australia
*E-mail: wahid.murad@adelaide.edu.au*

**Citation Reference:**

Alam, M.M., Molla, R.I., and Murad, M.W. 2011. The Deceptive Game of Today's Capitalist Globalisation Evidence from Malaysia's Experience, *European Journal of East Asian Studies,* Vol. 10(2): 169-180. https://doi.org/10.1163/156805811X616101



* Corresponding author, E-mail: rony000@gmail.com

# The Deceptive Game of Today's Capitalist Globalisation Evidence from Malaysia's Experience

Md. Mahmudul Alam[†], Rafiqul Islam Molla[‡], Md. Wahid Murad[§]

## Abstract

Globalization is the economic policy of integration of national economies with global economy on the basis of free market competition. It is a neoliberal prescription for industrialization and growth of the emerging economies of the South and a project of capital accumulation for the capitalist North through a process of securing disproportionate share of benefits at the expense of the developing South. The content analysis and Malaysia's globalization experience poise to support the hypothesis that globalization has high potential to contribute to industrialization and growth of the emerging economies, but at the same time, the way it is practiced, it is a deceptive game of the North and cannot be trusted wholeheartedly for emancipation of the developing economies. The paper suggests for a policy of target oriented 'inclusive globalization' to ensure equitable share of benefits of specialization and globalization.

**Keywords:** Economic Globalization; Capitalist Globalization; Neoliberalism; Fair market; Economic Nationalism; Income Convergence; Industrial Competitiveness.
**JEL Keywords:** C32, F13, F43, O11, O19, O47, O57, P16, P17.

## Introduction

History tells us to suggest that economic policies and approaches periodically change perspectives swinging back and forth, under different names, along the continuum of different shades and flavours of mercantilism and liberalism. One such swing is from Keynesian embedded liberalism (roughly the era of mid 1940s – early 1970s) to

† Institute for Environment and Development (LESTARI), National University of Malaysia (UKM), Selangor, Malaysia; and Integrated Education and Research Foundation, Dhaka, Bangladesh, Email: rony000@gmail.com
‡ Department of Economics, Faculty of Business and Law , Multimedia University, Melaka, Malaysia, E-mail: rimolla@gmail.com
§ Business School, Faculty of the Professions, The University of Adelaide, Adelaide, South Australia, Australia, E-mail: wahid.murad@adelaide.edu.au

neoliberalism (roughly the era of late 1970s – late 1990s) with globalization as its working agenda to the extent that the two names are at times interchangeably used.

Literally, globalization is international integration – a cultural phenomenon - for a borderless world. However, as it is practiced, it refers to economic globalization - integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology (Bhagwati, 2004:3) under the framework of free market competition to reap the benefits of specialization, efficiency, economies of scale and gains from trade. Essentially it is the increased interconnectedness of national markets reflected in the growth and rise in international trade, foreign investment, and especially in international financial flows. It is argued that the neoliberal policies would yield better national and global economic performance than in the Golden Age – the period of higher growth in GDP, employment, and productivity. Technology transfers from the North would let less developed nations converge to the developed nations' level of economic performances (Crotty and Dymski, 2001:4). Therefore, globalization is prescribed and pushed as a policy strategy for outward looking industrialization and economic growth of the developing countries of the South where outward looking industrialization is considered essential for emancipation of their developing economies. To that extent globalization is a fact of life of their industrialization processes. However, as an operational agenda of neoliberalism it is primarily a project of capital accumulation for the capitalist North through a process of systematic exploitation of the developing South (Harvey, 2005:2 and 2009). It is therefore perceived and accused as a deceptive game of the capitalist North. Under the circumstances it is seen as a 'capitalist' globalization and a double-edged sword for the industrializing economies. On one hand, it is an indispensible source of their industrialization and economic growth; and on other, it is a means of their systematic exploitation by the capitalist countries. Through a content analysis and by using Malaysia's globalization experiences as evidence this study aims to analyse the effects of this dichotomous role of capitalist globalization on the international political economy of the emerging economies of the South and the rich capitalist countries of the North.

## The Bright and Dark Sides of Capitalist Globalization

Economic globalization is a strategy of outward looking industrialization to enjoy the benefits of production for wide world market, specialization, and economies of scale. The internal dynamics of specialization, economies of scale, managerial efficiency, product quality, research and development, and quality of products, etc. at the national and firm levels are its bright aspects to make it a more reliable strategy for sustained economic growth and development. In that sense globalization is a natural outcome and the end result of economic development processes of any nation. But today's globalization is a 'capitalist' globalization and an agenda of neoliberalism which seeks to transfer control of the economy from public to the private sector and which is described as a project of restoration and consolidation of global capitalist class (global rentier class) power to enhance and protect capital accumulation (Harvey, 2005:2 and 2009; Crotty and Dymski, 2001:3). It is therefore primarily a scheme for maximizing capital accumulation for the capitalist North by means of systematically exploiting the developing South through manipulation of international prices of goods and services - highest price for their exports and lowest price for their imports. To this extent the era of globalization closely resembles the age of imperialism in the past (Heilbroner and Milberg, 2009:208).

The strongest economic argument for promoting economic globalization has always been the 'gain from trade' arising out of specialization and economies of scale. This 'gain from trade' is an added income for the trading countries to share and increase their welfare. Under a perfectly competitive market structure they are expected to share this gain equitably. But to many of the developing countries it has not brought the promised economic benefits; instead, it has generated higher profits for some multinational firms and banks, and much higher returns for rentiers throughout the world (Stiglitz 2002:5; Crotty and Dymski, 2001:4). Dr. Mahathir Mohamed, the former Prime Minister of Malaysia, once alleged that unregulated capitalist globalization has been the cause of greater global inequality and underdevelopment of many developing countries. He blamed it to be responsible for the East-Asian economic crisis in 1997. Consequently, capitalist globalization, as an agenda of neoliberalism, earned the international condemnation for its natural blind eye to the interests of the developing economies. Balaam and Veseth (2008:459) observe that instead of narrowing the gap between rich and poor countries, globalization, in fact, has widened the gap to reinforce the North-South divides. At a dialogue at Dhaka on inclusive globalization, attended by Novel laureates Sen and Yunus, and global financier Soros, globalization was criticized in various respects (Ahmad, 2007). Soros leveled it as a market fundamentalist project, placing ultimate reliance on market; it leads to monopolistic tendencies by promoting international business cartels; it hardly offers any playing field between the rich and the poor, far less any level playing field. As a result, inequities are growing in the world instead of healthy inter-dependence for the sake of collective good. Sen and Yunus criticized it as moving in a wrong direction. Majority of the nations are denied the privileges and are becoming weaker and weaker, while the rich countries are getting stronger and stronger with the prerogative of giving the global economy the shape they like. The poor nations virtually have no say in the designing of the global economy. The dialogue noted with shock that two percent of people possess 50 percent of the world's total assets. Even, apparently in an unusual move, the British Prime Minister Mr. Gordon Brown has recently talked about the dark side of capitalist (unregulated) globalization. In terms of it dark side it is seen inherently a scheme for widening the income gap between developed and developing countries. Other critics accuse USA and other Western countries guilty of hypocrisy; they have kept up their own trade barriers, while they pushed the poor countries to eliminate their barriers (Stiglitz, 2002:6-7).

**Global Economic Structure and the Deceptive Nature of the Game**

To the industrialized nations economic globalization is to facilitate acquiring their imports, mostly the primary products, at the lowest prices from developing countries and selling their industrial and financial products to those countries at the highest prices to generate maximum capital accumulation. Since the real world is divided into widely unequal north and south, strong and weak, rich and poor, developed and developing, industrialized and industrializing countries, free (and fair) market competition is not a feasible and tenable premise. As a result, by pursuing a strategy of globalization of economy under the present capitalist framework, industrialized powerful countries and industrializing weak countries enter into a centre-periphery relationship in production power structure in which the developing industrializing periphery countries become dependent on the industrialized developed centre countries for their production and trade. Taking full advantage of this global economic structure the capitalist countries (North) have driven the globalization agenda ensuring that it garners for them a disproportionate share of benefits, at the expense of the developing countries of the South (Stiglitz, 2002:7). Moreover, globalization favours capital as a mobile factor of production but not the labor for which international mobility is extremely constrained (Heilbroner and Milberg, 2009:180). Therefore, it is pathologically incapable to benefit developing economies. As a result the industrialized/capitalist countries always get most or all of the gains from trade. Therefore it is a deceptive game used by the capitalist nations as an exploitative mechanism for enriching themselves at the expenses of the developing countries; it is a project of 'strongest takes it all'. A simple hypothetical example below will explain the principle how exploitations take place under unregulated globalization:

Country A (relatively small developing economy) and Country B (strong industrialized economy) produce 2 groups of goods – Consumer goods and Capital goods. Their production possibilities with given resources, therefore, are:

For A: 100 consumer goods or 20 capital goods

For B: 30 consumer goods or 120 capital goods

Autarky prices (prices without trade) in country A:

Relative price (cost) of one unit of capital good: 100/20 = 5 consumer good

Relative price (cost) of one unit of consumer good: 20/100 = 0.2 capital good

Autarky prices (prices without trade) in country B:

Relative price (cost) of one unit of capital good: 30/120 = 0.25 consumer good

Relative price (cost) of one unit of consumer good: 120/30 = 4 capital good

Since cost of capital good in country B is the lowest (.25 as against 5 in country A) clearly B has the comparative advantage in the production of capital good and A has comparative advantage in the production of consumer good. If they decide to specialize and enter into trade the international price of the commodities can be bargained and settled anywhere between the autarky prices of the commodities in the two countries; closer it is to the importing country's autarky price, exporting country gains more and importing country gains less and vice versa. In our example price of capital good could be settled anywhere between 0.25 – 5 consumer goods. If it is settled closest to 5, B (exporting country) will get the most of the gains from trade, and A (importing country) will get none or the least of the gain. Therefore, if A and B are committed to fair trade and sharing of the gains from trade equitably the terms of trade should be settled at the middle of the range of the autarky prices in the two countries.

The capitalist trading partners by virtue of their economic strength and bargaining power always insist to set the prices of their exports and imports closest to the autarky prices of the developing countries for maximizing capital accumulation. Therefore the dark and deceptive side of globalization is so glaring that it overwhelms all its bright aspects making it misfit for the search of a New International Economic Order (NIEO) of the larking contemporary vision of social market economics – i.e. transforming the perspective from the 'free' to 'fair' market.

Another feature of the deceptive nature of globalization is that it is a 'one-way traffic' re-enforcing dependency of the South to the North. Unfortunately it appears that in the South 'West is best' to emulate is a generally accepted concept on the table. The late president

Julius Nyerere of Tanzania called this ‘catching up with the north syndrome’. As a result most of these countries have easily accepted North-pushed consumerism and globalization in which westernization is symbolized as globalization. Consumerism is the unbridled urge for consumption, as if ‘we only live to eat’. It is the product and teachings of capitalism of the affluent economy. One of the most important objectives of the north-pushed globalization is to promote and spread this consumerism to the developing countries so that their economies become dependent (by a centre-periphery relationship) on the industrialized economies. This has led to the wanton spread of western consumption practices in all the developing countries making the South increasingly dependent on the North and, thus, making globalization practically a one-way traffic instead of a two-way movement of products and cultures between the North and the South. That is why we find that in spite of the established superiority and more dependable performances of Islamic banking system even in their own territory, the north is not yet ready to openly and wholeheartedly accept and accommodate Islamic banking system in its banking industry. Because of its religious foundation, ‘ethical financing’ is the centre piece of Islamic banking system. As a result of which Islamic banks and banking system were not affected by the global financial crisis. However the conventional banking and financial system is guilty of unethical and speculative financing that created the credit bubble in the financial sector and caused its eventual collapse. Emphasizing on the desirability and ethical superiority of the profit and loss sharing principle and the Islamic bond (*sukuk*) for funding development and business projects, various credible quarters in the North, for example Prof. Rodney Wilson of London School of Economics, Lord Mayor of the City of London, and the Vatican, recognized and appreciated the superiority of Islamic banking and financial principles for a viable and stable global financial system (Al-Arabia, 2009; The Brussels Journal, 2009). But at the same time we also find many, like Gaffney (2008), on the road busy painting Sharia-compliant Islamic finance even as a *Jihadi* (holy war) institution and a formula for devastation. Accordingly, we find that it has been largely denied its rightful place in the North.

The unfettered capitalist globalization, therefore, cannot be trusted and taken for granted as workable and profitable development policy for the developing countries. Yet globalization is a fact of life for emancipation of their developing economies. It is therefore essential for these countries to workout and decide upon the nature, kind, and framework of the globalization they want to pursue for their economies to operate gainfully without being exploited by the industrialized trading and growth partners. Asian Development Bank, for example, argues for a ‘market driven but state steered’ globalization model (‘Asian Model’) as a development strategy for these countries. From the study of the East Asian Tiger economies, Crotty and Dymski (2001:26) noted that the reimposition of national capital control in pursuit of the reconstruction of effective and progressive national industrial policies is a quite likely precondition for success in the pursuit of economic development of the countries of the South. Accordingly, for the interest of the global whole, appropriate global institutions to support such progressive national programs of the developing South have to be created.

**Truth of the Matter – Mainspring of Development Process**

Globalization may be the fact of life and natural outcome and the end result of economic development processes of any nation. But it is not the mainspring of the process. In fact, economic nationalism founded on mercantilist perspective is its mainspring. We must remember that it was Prime Minister Nehru’s first economic policy declaration, ‘produce or go without it’ - a sound of economic nationalism and stand for effectiveness as against efficiency – and not any call for globalization, that played the trick to stimulate Indian lion economy to roar. Similarly, with the same magic wand of effectiveness China activated its dragon economy to spread its wings. The East Asian Tiger economies were energized to grow taller by the touch of the wisdom of the flexible and adapted state-led growth policy. East Asia’s success stands as a proof of the superiority of the Asian Model - an intelligent and flexible combination of state regulation and market forces, under a shade of mercantilist perspective - to achieve a desirable combination of economic growth, productivity, technological progress, and income equality. Unguided globalization for the beginning industrializing country, in fact, will only amount to jump start the process of economic development taking risk of malfunctioning. The Prebisch-Singer hypothesis that countries (developing economies) cannot effectively industrialize under free-market system will lend support to that. In addition, as a regime of supply-side management, neoliberal globalization leads to a chronically inadequate aggregate demand growth and structurally determined excess aggregate supply (Crotty and Dymski, 2001:10). Therefore, the big industrialized countries are now vying for a kind of regulated capitalism and proposing for revamping the old Bretton Woods accord under the new name Bretton Woods II (The Daily Star, 2008).

**Inclusive Globalization / Neoglobalization: The Next Swing for Way Out**

Because of its inherent interest for elitist development and natural disregard for egalitarian development and its blind eye to the aspirations of the emerging economies of the South its received love and respect and enthusiasm started eroding by late 1990s. In 1998 the length of its market freedom attribute was trimmed and a new consensus was reached with recognition and specification of the ‘role and responsibilities’ of both state and market in a state guided market-driven development policy. The development policy and approach again took another swing, this time with some steps backward towards the embedded liberalism to reshape and redress it for a search of New International Economic Order from the perspective the contemporary vision of social market economics. Sound of this swing was clearly heard at that time from the writings of the scholars (like the Novel laureate Prof. Paul Krugman, 1999: *The Return of Depression Economics*).

For the developing countries, globalization must play the role to ensure sharing of gains from trade and growth equitably with the developed industrialized partner countries and contribute positively to the growth in industrialization, industrial competitiveness, economic growth and development and reduction in their income gaps with industrialized developed countries. To make it work and help create a new global economy in which growth is not only more sustainable and less volatile but the fruits of the growth are more equitably shared, it needs to be reshaped, reoriented, and properly managed with all countries having a voice in policies affecting them (Stiglitz, 2002:22). Similarly the Dialogue at Dhaka mooted for an inclusive globalization to realize the potentials of globalization to eradicate poverty and lift countless have-nots. They believe this ‘inclusive globalization’ will promote a new international economic order requiring reformation, reorientation, reorganization, and restructuring of the mighty international institutions like the UN, World Bank, International Monetary Fund and World Trade Organization, etc. in terms of management control, objectives, and goals, and creation of new global institutions to support such egalitarian progressive national programs.

Where the capitalist globalization is a project of efficiency that works for benefits of the most efficient and the strongest, the ‘inclusive globalization’, is a project of effectiveness that works for equitable sharing of benefits by participating nations. It is a pursuit of a new international economic order. It has to be globalization guided and regulated to ensure equitable sharing of the benefits of trade and growth by all the participating nations. Its underlying theme must be internationalization of the economies rather than globalization of trade, production for need fulfillment rather than for profit maximization, replacement of greed and competition based on the philosophy of ‘survival of the fittest’ by the humanity of cooperation based on the philosophy of ‘live and let live’, and replacement of the ‘free market’ by ‘fair market’ perspective.

**Reshaping and Resetting the Mindset of the Developing Nations**

As a way out to reduce this dependency the developing countries should be able to overcome the ‘catching up with the north’ syndrome and reshape and redirect their industrialization and development programs on the track of need-based production free of imitative and conspicuous consumptions. They should pursue their industrialization and economic programs to achieve development in the spirit of, as Sen (1999:14) suggests, *‘a life we want to lead and the freedom we want to enjoy’.* Going for conspicuous and imitative consumptions and life style will only make the rich industrialized countries stronger in bargaining power in setting the terms of trade. That is why Dr. Mahathir Mohamed, the other day, repeated the call when he said it out loud that with our resistance to imitative Coca Cola, Kentucky fried chicken, and Macdonald culture we can create credible pressure on the economy of the north and resist its deceptions in setting the international terms of trade.

**Malaysia’s Experience of Globalization**

Malaysia formally started its industrialization journey in 1957 and proceeded phase by phase through the road map of development to realize its vision of becoming a ‘fully developed’ nation by 2020. However, globalization of its economy effectively started from 1970 with the program of export oriented industrialization added with the program of industrial and social restructurings. Its scale increased steadily during 1970-2007. Malaysia approached its economic globalization very cautiously, selectively, and prudently through a strategy of export-oriented industrialization with internal and external investments, but without yielding to any pressure and influence of the dominant nations and international organizations. ‘Look east’ and ‘Malaysia-centric’ autonomous identity remained its themes.

Results from a recent study on Malaysia’s economic globalization by Molla et al. (2009) show that from the context of national macroeconomic indicators like per capita GDP and GNI, growth, employment, inflation, distribution of equity capital, poverty level, etc., Malaysia has made significant and commendable achievements during the study period from 1970 – 2007. This suggests that Malaysia has effectively enjoyed the positive effects of globalization. At the level of international competitiveness, Malaysian economy maintained a steady improvement moving from 40$^{th}$ in 1980 to 21$^{st}$ position in 2007 in terms of global industrial performance/competitiveness ranking. This may suggest that globalization has created an attractive and efficient industrial environment and caused transfer of technology in management, process, and products to increase economy's competitiveness and performance level.

However, the income convergence analysis of Malaysia with its two major trade and growth partners – USA and Japan - show that the three economies are diverging and Malaysia's income gap with both US and Japan is increasing over time. This may signify (subject to confirmation by future studies on terms of trade) that Malaysia is having very unfavorable terms of trade with the USA and Japan and as a result it has been sharing the benefits of globalization proportionately far less than its rich trading and growth partners for which its income gaps with them are increasing rather than decreasing. Under the circumstances it can be said that Malaysia's globalization has clearly failed to achieve the goal of reducing its income gap with richer countries. The General findings of income convergence studies show that lower income industrializing countries are 'catching up' to the higher income industrialized countries, even when the developing countries as a group does not have income convergence with the rich industrialized countries as a group (Hubbard and O'Brien, 2006:312). In that sense Malaysia's globalization has unexpectedly failed even to match with the general findings of income convergence studies. In spite of the fact that Malaysia has pursued globalization very selectively in a regulated manner, yet at the global front its globalization program truly failed to achieve the expected outcome. This therefore confirms the strength of deceptive nature of the capitalist globalization

**Conclusions**

The content analysis and Malaysia's globalization experience lend support to the hypothesis that globalization is important for the emerging economies. But since it operates through the mechanism of free market competition, it turns out as inherently a deceptive game of the capitalist countries for exploiting the developing economies. It is, thus, a necessary evil and cannot be taken for granted for economic emancipation of the emerging economies. There is a need for its replacement by a more regulated and target oriented 'inclusive globalization' to ensure equitable sharing of the gains from trade and growth among the capitalist North and developing South.

**References**

Ahmad, Q. K. (2007) Towards an Inclusive Globalization, The Daily Star, January 11, Dhaka.

Al-Arabia (2009) Islamic Finance: Can it save Western Banks?, May 29. (Online) www.alarabiya.net/articles/2009/05/29/74199.html

Balaam, D.N. and Veseth, M. (2008) *Introduction to International Political Economy* (4th ed), New Jersey: Prentice Hall.

Bhagwati, J. (2004) *In Defense of Globalization*, New York: Oxford University Press.

Crotty, J. and Dymski, G. (2001) Can the Global Neoliberal Regime Survive Victory in Asia? The Political Economy of the Asian Crisis, Political Economy Research Institute, University of Massachusetts, Amherst, USA.

Gaffney, F. (2008) Wall Street, what's next?, The Washington Times, September 16. (Online) http:/www.washingontimes.com/news/2008/sep/16/into-the-fire/

Harvey, D. (2005) *A brief History of Neoliberalism*, Oxford: Oxford University Press.

Harvey, D. (2009) Is this Really the End of Neoliberalism?, Counterpunch, March 13-15. (Online) http://www.counterpunch.org/harvey03132009.html

Heilbroner, R. L. and Milberg, W. (2009) *The Making of Economic Society* (12th ed), New Jersey: Pearson Prentice Hall.

Hubbard, R.G. and O'Brien, A.P. (2006) *Macroeconomics*, New Jersey: Pearson Education International.

Krugman, P. (1999) *The Return of Depression Economics*, New York: W.W. Norton and Company.

Molla, R.I., Murad, M.W. and Alam, M.M. (2009) Processes and Achievements of Malaysia's Economic Globalization, unpublished report, Multimedia University, Malaysia.

Sen, A. (1999) *Development as Freedom*, New York: Knopf.

Stiglitz, J. (2002) *Globalization and Its Discontents*, New York: W.W. Norton and Company.

The Brussels Journal (2009) Vatican Paper Supports Islamic Finance: France Wants Its Share of Sharia Banking, March 12. (Online) http://www.brusselsjournal.com/tiberge

The Daily Star (2008), Big powers gear up for regulated capitalism, Oct 17, Dhaka. (Online) http://www.thedailystar.net/story.php/mod=59094