

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

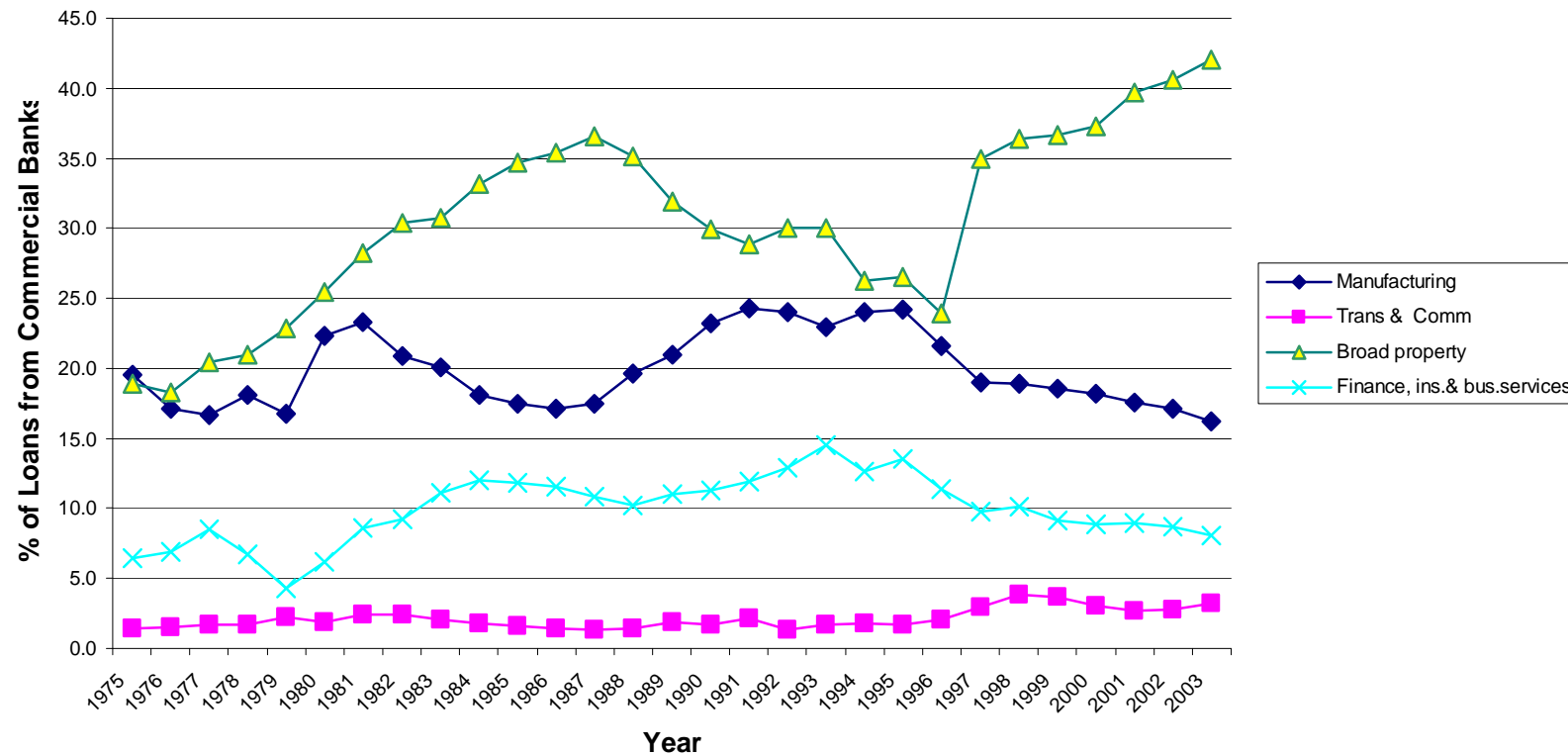


Financial Liberalization and Credit Allocation

- Deregulation ought to result in more efficient credit allocation
 - - eg. St.Paul (1992)
- 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)

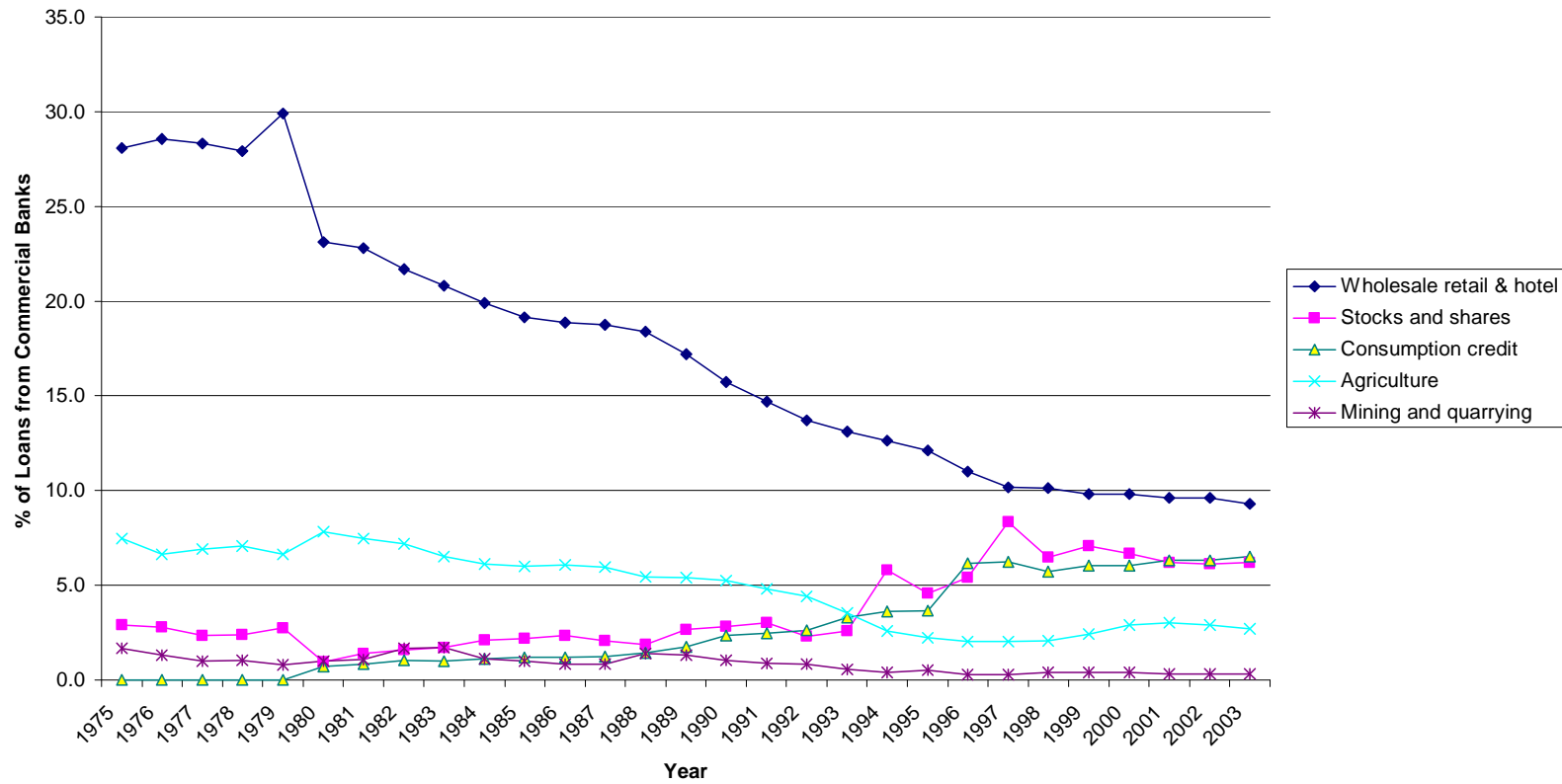
Financial Liberalization and Credit Allocation in Malaysia

Chart 4.1 : Loans Secured by The Manufacturing, Property, Finance, Insurance & Business Services and The Transport & Communication Sectors



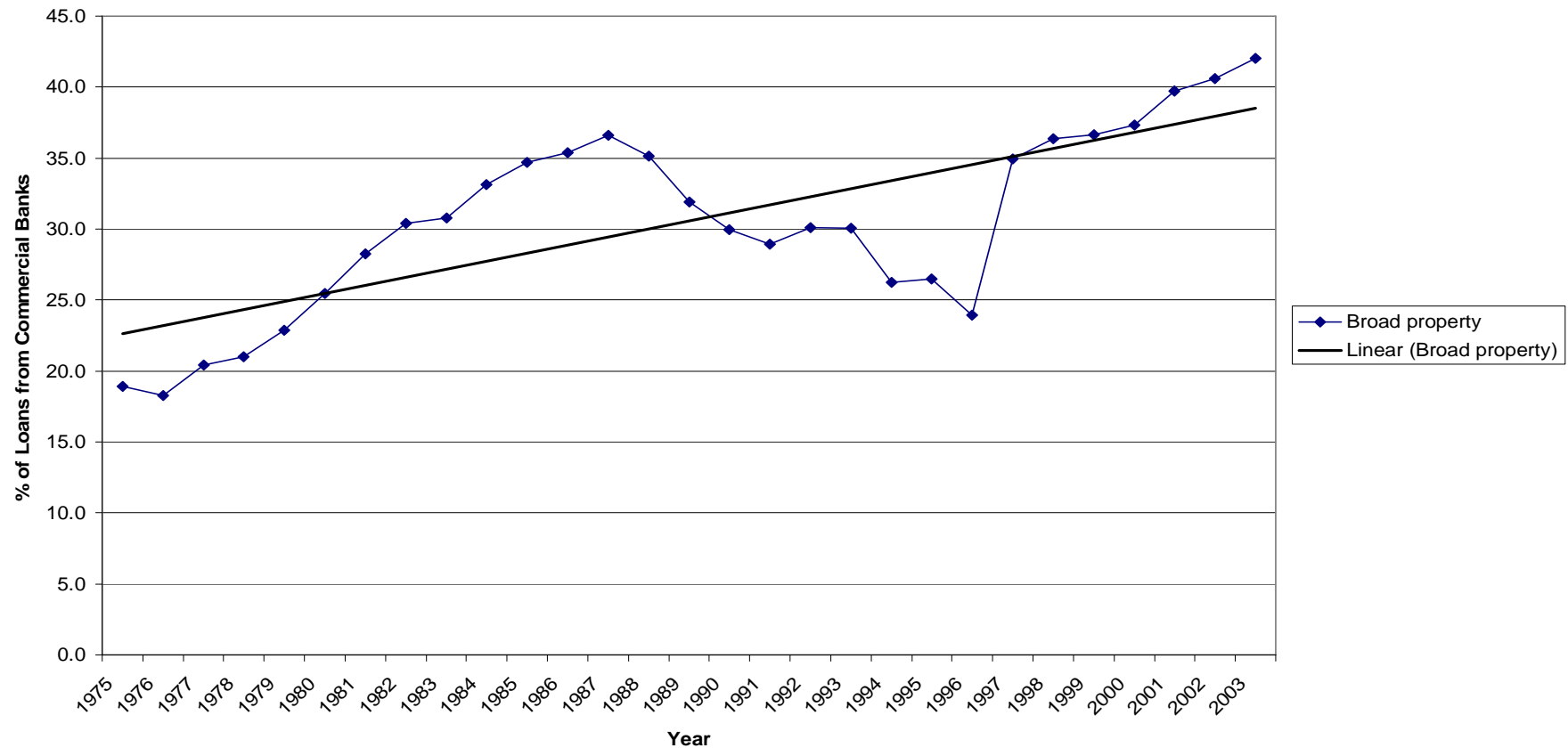
Financial Liberalization and Credit Allocation in Malaysia

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



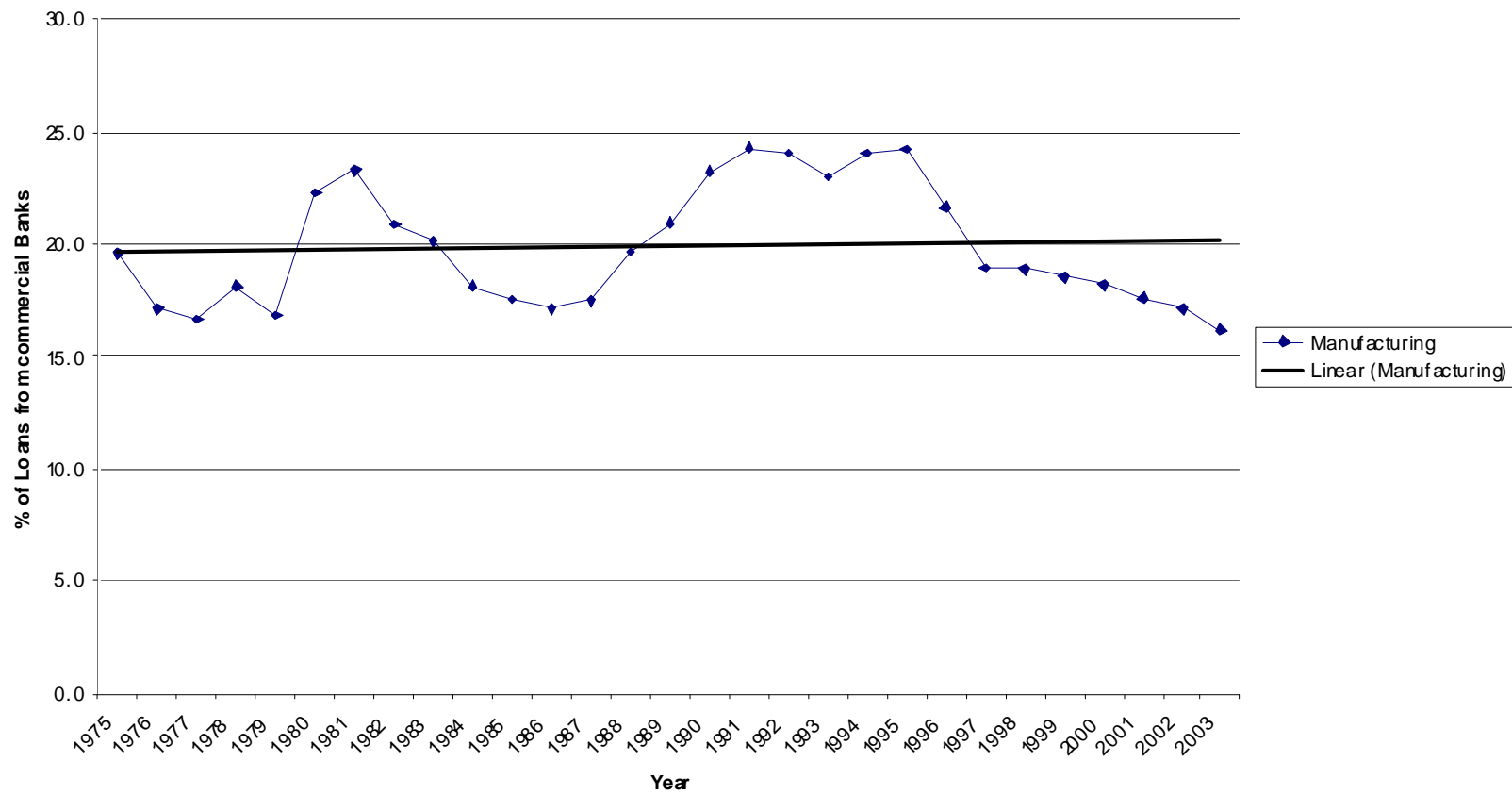
Financial Liberalization and Credit Allocation in Malaysia

Chart 4.3: Trendline for The Broad Property Sector



Financial Liberalization and Credit Allocation in Malaysia

Chart 4.4 : Trendline for Manufacturing Sector

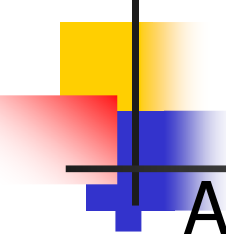




Globalization and economic crises

- 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

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- 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 from 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 inequity of economic progress

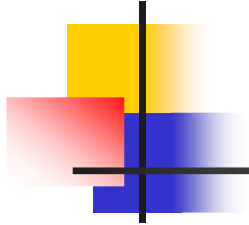


- During economic prosperity, the wealthy gets the lion share of the wealth
- During downturns, the more vulnerable segments of society (small business entrepreneurs, labourers ..) and in general those that had no role in bringing about the crises (e.g. borrow millions of \$,) bore the brunt of the burden. – 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

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