Muhammad bin Ibrahim: Some perspectives on globalisation and its aftermath

Welcoming remarks by Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 2017 IMF-BNM Summer Conference "Some Perspectives on Globalisation and its Aftermath", Kuala Lumpur, 25 July 2017.

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Welcome to the 2017 IMF-BNM Summer Conference. I would like to thank the IMF for partnering with Bank Negara Malaysia to co-host this event for the first time in Southeast Asia. Our exchange of knowledge and experiences will be valuable for us to better understand the dynamic issues brought about by globalisation that is confronting our economies, financial systems and societies. I want to record my appreciation to *all* of you for being here today.

Kofi Annan once said that arguing against globalisation is like arguing against the law of gravity. Globalisation has brought about unprecedented periods of peace, prosperity and progress for the world. We have made significant strides. In the last decade, we have lifted half a billion people out of abject poverty – it previously took us 25 years to do it, from 1980 to 2005. Businesses, investors and workers have benefited from expanded opportunities. Countries have rapidly transformed agricultural labourers into manufacturing workers, spurring growth and productivity. Consequently, economies worldwide have become more interdependent, integrated and intertwined.

One of the biggest beneficiaries from globalisation is ASEAN, which celebrates its 50th anniversary this year. ASEAN is now the sixth-largest economy in the world in terms of combined GDP; and is the fourth-largest exporting region after China, the U.S. and Germany. The ASEAN Economic Community is governed by the principles of mutual respect for countries' independence, national identities, and levels of development. These principles have become a foundation for deeper economic and financial integration, creating a region that is more inclusive and sustainable.

However, globalisation has presented us with significant challenges. Where it has created winners, many have been dislocated. Fruits of globalisation that were not equitably shared led to a sense of injustice within the global community and economy. Now, domestic inequality has increased, while existing wedges in wealth distribution, employment opportunities and social mobility have been amplified by globalisation.

Public discourse on *both* the positives and negatives of globalisation is not new. What is new is the rising public backlash against globalisation, which has been used by some to promote their narrow economic and political agenda. Ironically, some of these originated from the very economies that advocated globalisation as a means to generate greater wealth. *Some* of these concerns are legitimate and deserve due attention by policymakers and researchers. The advocacy that globalisation should be made fairer warrants strong consideration. Maximising benefits and evenly distributing it is a worthwhile goal. Let's challenge the conventional wisdom and consider unorthodox solutions. As these solutions will invariably have global dimensions, cooperation amongst countries is critical. This is where the IMF, as a global institution, can facilitate and play a meaningful role.

Globalisation in the Aftermath of the Crisis

In more recent periods, major trends have influenced how we perceive and pursue the globalisation process. **The first trend is growing anti-globalisation sentiments and rising populism.** We can trace this back to rising inequality and deteriorating standards of living in many communities across the globe.

Between 1988 and 2011, the incomes of the poorest 10% increased by just USD65, while the incomes of the richest 1% increased nearly 200-fold, or USD12,000. In the advanced economies, workers railed against the intense competition from lower cost producers of manufactured goods such as Bangladesh, China and Vietnam. Coupled with higher living costs, many became marginalised. The angst of these communities have fused into anti-establishment movements and pushback against trade agreements. Unfortunately, these circumstances happen at a time when we need to galvanise all our resources to pull away from the setback of what was termed the "New Mediocre".

Second is the growing perception that globalisation erodes national sovereignty. Participation in multilateral institutions and international trade agreements is portrayed as a devolution of national policies. The extensive involvement of multilateral institutions in domestic economic affairs and the onerous obligations in trade agreements have incited strong reactions from domestic constituents.

This reality, for some, underscores the imbalances associated with globalisation. Its economic ramifications are immense, with the consequences of Brexit and the retreat of the U.S. from the Trans-Pacific Partnership Agreement still unfolding as we speak. The full impact of these developments are only likely to be clear some years from now. This is indeed a most unfortunate situation. When factions exacerbate fractions, it damages even the most established forms of international cooperation.

Third, the exponential speed of technological change has altered the global economic landscape and requires us to adapt fast. The proliferation of providers offer services that challenge the status quo. The dynamism of digital financial services redefines the nature of product delivery. It adds to the complexity of regulations and presents new challenges for economies, with broad consequences. Unattended, these challenges create risks that can stunt innovation, cause dislocation of labour and destabilise financial systems. Look at how ransomware attacks such as WannaCry and NotPetya have rattled internet users around the world. These virtual intruders *infiltrated* our synthetic selves, blocked access to our personal and professional files, and held us ransom by demanding payments to unlock them.

These malwares infested computers operating on outdated and susceptible systems. For the financial sector, these recent attacks reinforce the lesson that, if we take a neutral stance to the IT revolution, we open ourselves up to weaknesses that can be extremely costly. For policymakers, these costs can have significant externalities that we must be concerned about.

During World War II, Alan Turing and a team of experts took *six months* to crack the Enigma code. In contrast, today, Google can detect a virus in *mere minutes* through its algorithms. Artificial intelligence is already being deployed to replicate human logic and judgment in specific applications. According to the OECD, 9% of jobs are at high risk of being replaced by automation, and a quarter of the workforce requires major re-skilling. Currently, only 42% of the workforce has the necessary skills to thrive in tech-rich landscapes. In Malaysia and like many other countries, technological advancements have reinvented many processes and displaced many functions in bank branches, forcing closure and rationalisation of operations. Automation will replace conventional labour as we know it, and this trend will go unabated.

Tweaking our approach to globalisation

The IMF has warned that global living standards will continue to fall, unless governments and businesses take measured efforts to put in place long-term solutions. The trends that I have mentioned, while highlighting the larger challenges that confront us, should not reverse our current path of progressing towards expanded but measured globalisation. We must emphasise the benefits of globalisation to counter populist sentiment, while actively assisting those negatively impacted to make the necessary adjustments. It is from this perspective that the solution is *not* to turn our backs on globalisation, closing borders and cut ties, or to withdraw from international trade or financial agreements and commitments.

It is from this perspective that research has the potential to advance the current conversation on global solutions. As we re-evaluate our path of policymaking, there must be heightened focus on evidence-based research and greater room for experience-based policymaking. In line with the spirit of *Sasana*, our meeting point today for the learned and the wise, I look forward to the exchange of ideas at this Conference.

In this regard, I would like to humbly offer some thoughts on *three* areas where the gains from globalisation can be safely acquired, more equitably dispersed, and impose the least cost to society.

Firstly, we must make *financial globalisation* safer and its benefits distributed more equitably. The Global Financial Crisis, and the Asian Financial Crisis, clearly demonstrated the risks and the damage that could be wrought by financial globalisation. It amplified the costs of policy and regulatory lapses and failures in crisis prevention and management. It is interesting to observe that despite consequences primarily associated with financial globalisation, trade has received the brunt of the blame. Let me illustrate – in the wake of the GFC, between November 2008 to December 2009, 390 trade protectionist measures were announced or implemented by 19 of the G20 members. Ironically, financial globalisation channels were not addressed as quickly. It is surprising how policymakers, particularly in the advanced economies, have yet to arrive at a consensus in recognising the harmful effects of free capital mobility that is disconnected with the real economic activity. This is an issue that many remain divided on until today. While we have instituted policy reforms to better manage our financial systems and institutions, more can be done.

We need effective frameworks to ensure financial globalisation contributes to risk diversification, consumption smoothing and efficient intermediation of productive capital across international borders.

The global community should decisively address the risks posed by large and volatile short-term capital flows. Not enough is being done at the global level to manage the negative spill-overs to recipient countries. Here, the IMF can play its role as the trusted policy advisor. The Fund can do more to ensure that global financial aspirations consider diverse circumstances and national objectives. Efforts to encourage a more inclusive process in setting global financial standards and initiatives are positive steps in the right direction. Perhaps the most important development of late is the unravelling of a 'one-size-fits-all' approach to managing international financial flows. Again and again, previous experiences in crisis management *strongly* suggest that each crisis at any given time requires a *tailor-made* solution, given the specificity of each economy's social, economic and political landscape.

The world is changing so rapidly that many countries are forced to retool their nations to embrace new opportunities and unlock this growth potential. Previous successful solutions and policies do not guarantee success and relevance.

Throughout episodes of crises, a key lesson policymakers learnt was to have flexibility and courage to explore and implement all available policy tools in preserving macroeconomic and financial stability. At one time, unorthodox and unprecedented policies were considered heresy. Now, they are considered necessary.

I thus welcome the recognition within the IMF for a more progressive view on macroprudential and capital flows measures. I also welcome the IMF's continuous engagement and responsiveness to the experiences of countries in this region, that have been using these policy tools for many decades. And I hope the IMF will continue to fine-tune the Institutional View on Capital Flows and its interaction with macroprudential policy. To my mind, this will provide the impetus to a deeper partnership between members and the IMF as a trusted policy advisor.

The second area relates to our policy approaches. They must be clear, coherent and complementary to ensure a more human-centered approach.

Experience shows that for globalisation to make sense to the man on the street, they must '*feel'* and be '*touched'* by its benefits, and be satisfied that their lives are better than before. Public engagement is important to address specific concerns. Domestic policy programs and implementation must be *coherent, comprehensively* explained and easily understood, and *complemented* by policy measures consistent with the intended outcomes of international arrangements. Robust communication and transparent assessments can contribute to deeper levels of public understanding and acceptance. With information now easily accessible to all and sundry, authorities are no longer the sole arbiter of knowledge. Authorities, therefore, cannot maintain a one-dimensional communication strategy to explain the multi-dimensional policies and the consequent impact of those policies that we implemented.

Finally, we must fully embrace the explosion of technology to keep pace with the altered global economic landscape. Come 2020, more than 24 billion internet-connected devices will be installed. As technology continues to reshape our world, we must balance improvements in efficiency and customer experience with the concomitant risks. Today, the trade-offs are still not well understood because while some use technology maliciously, many more use it for a good cause. Only by embracing this advancement, and by working together with tech-players, can we synergise and fully reap the benefits for the economy.

In response to these technological shifts, *'RegTech'* developments ought to be a high priority for global financial regulators. An end goal is to balance the risks and opportunities within the technological sphere. Equally important here are the complementary roles of governments and industries in sharing information, so that we can holistically mitigate various aspects of security threats. The catalytic role of behavioural analytics and big data further provides us with tools to address threats channelled through the financial system. In order to adapt to the borderless nature of globalisation, international cooperation is vitally important.

Beyond the financial sector, we must prepare our human capital for the future. Close collaboration between public and private sectors is critical to ensure that displaced workers are adequately retrained and equipped with new skills. Those dislocated should not feel sidelined. We can address labour displacement by investing in education, skills re-training and increasing women's participation in the workforce. We need to take a hard look at the current landscape of social safety nets, and draw best practices – both those tried and tested, and practices that can best respond to new challenges and needs of society.

Conclusion

Looking ahead, globalisation will likely work if we widen the horizon that touches positively on all segments of society. Negative spill-overs are likely unavoidable. But it is incumbent upon *us* to formulate policies and give greater attention to those most adversely impacted by this process.

Kofi Annan compared globalisation to gravity. With weightlessness, astronauts experience intense dizziness and lose their sense of orientation. Without gravitational pull, their bones weaken, ligaments deteriorate and muscles atrophy. The same can be said about the force of globalisation – without it, economies weaken, relationships deteriorate and growth atrophies. Globalisation is slowly but surely solidifying our shared future as *one* global nation of states. It is our collective responsibility to strengthen and sustain the state of *this* nation for the benefit of future generations.

Let me end here by thanking the eminent speakers and participants for being here, and I look forward to hearing your views. I hope that you will also take some time during your stay here to enjoy the diversity of our country.

Thank you.