Marzunisham Omar: Globalisation - contents and discontents

Welcoming remarks by Mr Marzunisham Omar, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the World Bank International Conference "Globalisation: Contents and Discontents", Kuala Lumpur, 15 January 2019.

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Globalisation has contributed to the world's unprecedented economic growth and prosperity. Global output has increased more than six-fold in the past 50 years. A billion people have been lifted from abject poverty in just one generation.

Although the gains from globalisation are vast and widely-acknowledged, its fruits have not been equitably shared by all. The growing sense of discontent and injustice among the marginalised have led to a retreat from globalisation in the recent period.

This reminds me of what the late Kofi Annan once said: "Globalisation is a fact of life. But I believe we have underestimated its fragility".

Globalisation has, and will always, exist in a tension. The challenge is finding the right balance between various, and often contrary, objectives. The retreat from global integration and multilateralism today serves as a wake-up call for us to reflect on the realities of globalisation, to re-examine our policy choices and to recalibrate our way forward.

With rapid technological advancements becoming an increasingly polarising force, the sociopolitical and economic issues at hand are more pressing than ever.

It is my great pleasure to welcome you today to the World Bank International Conference on 'Globalisation: Contents and Discontents'. Thank you to the World Bank for giving me the opportunity to say a few words.

This morning, in my brief remarks, I will touch on globalisation from three perspectives, namely trade, financial and human capital.

Trade Globalisation

A key manifestation of globalisation is the exponential increase in international trade. Exports as a share of global output have tripled since the 1950s, while foreign direct investments have increased seven-fold. This phenomenal development has been facilitated by economic integration, technological advancements and the proliferation of trade agreements.

The benefits of globalisation of trade and investment have been experienced across the board – economic growth and productivity have accelerated; businesses have greater access to resources and markets; workers have broader job opportunities; and consumers have a greater array of goods and services to choose from. Collectively, these gains have translated into the unprecedented improvement in income across the world.

This is certainly true for Malaysia. We are no stranger to international trade, ever since the rise of Malacca as an important global port more than 600 years ago. Despite accounting for only 0.2% of the world's land mass, Malaysia is currently the 25th largest trading nation in the world and a key player in the global value chain. Our financial system is highly integrated with the international markets. Malaysia's economic and financial integration with the rest of the world has undoubtedly contributed significantly to our economic progress in the last few decades.

And yet, there is increasingly growing pushback against globalisation, especially in the advanced economies. This is driven primarily by the view that open trade has worsened income and wealth inequalities. The recent work by Thomas Picketty as well as Branko Milanovic's "elephant chart" have shown how income inequality has worsened in the recent period. In 2016, the top 1% earned more than double the share of global income compared to the bottom 50%.

It is no surprise then that accusations of free trade causing job losses and disproportionate depression of wages have shifted from economic textbooks to the forefront of policy discussions today. The next decade promises to be even more challenging, with rapid technological advancements poised to accelerate job displacements and potentially worsen income inequalities.

Malaysia faces this challenge. As we liberalised our economy over the years, there were industries and workers affected by rising competition. As our economy evolved, we moved away from uncompetitive sectors while new opportunities opened up. Policies were implemented to facilitate these industries' transformation, while assisting the displaced workers. These include enhancing upskilling programmes, strengthening social safety nets and ensuring sustainable fiscal redistribution.

There are legitimate concerns on trade liberalisation. In my view, the solution does not lie in retreating behind our own borders. Instead, it lies in upholding the rules of fair trade and in us being proactive and adaptive in assisting those who have been adversely affected by globalisation. It is also clear that it is no longer sufficient just to focus on pursuing strong growth. We must also foster inclusive growth.

Financial Globalisation

Beyond international trade, financial globalisation has also expanded tremendously. Cumulative global bond and equity market flows are now more than 80 times larger than that in the year 2000 and far exceeded trade flows.

There is no doubt that financial integration, if properly managed, can catalyse a more efficient allocation of productive capital and know-how transfers, with the intended benefits.

However, financial globalisation has also been accompanied by highly-volatile short term portfolio flows, which frequently led to major disruptions to emerging economies' financial markets. At the extreme, global financial flows can lead to the build-up of domestic vulnerabilities, such as currency mismatches, external indebtedness and broader financial imbalances. When financial globalisation becomes in itself a source of shock, financial markets can be easily overwhelmed.

In Malaysia, two-way capital flows have increased by almost three-fold in the aftermath of the Global Financial Crisis. Similar to other emerging economies, we have also experienced several episodes of sharp capital flow reversals. Supported by firm macroeconomic fundamentals, our deep and broad financial markets were able to intermediate these flows in an orderly manner.

The experience of emerging economies in dealing with capital flow volatility underscores the need to always keep our "own house in order". While this is necessary, it is not sufficient. Often, we have seen how external developments that are beyond our control, such as the Taper Tantrum and trade tensions, could trigger periods of sharp capital flow volatility in emerging economies with severe consequences. There are "innocent bystanders".

It is therefore imperative that the risks arising from financial openness be better managed. Similar to legitimate concerns on trade openness, emerging economies also have legitimate concerns on the negative effects of financial globalisation. More needs to be done to have, to quote IMF's Christine Lagarde, "safer capital flows".

Allow me to put forward two areas for deliberation. First is on financial safety nets. In this regard, I welcome efforts to strengthen regional and global financial safety nets. To this end, ASEAN+3 countries achieved a significant milestone under the Chiang Mai Initiative Multilateralisation when the fund size was doubled to USD240 billion in 2014. Moving forward, an important consideration is to bring the various bilateral swap arrangements and regional financial safety nets together with the IMF's safety net into a coherent framework that will enhance their complementarities and thus, effectiveness in supporting emerging economies in dealing with short term capital flow volatility.

Second is with respect to domestic policy space for emerging economies in dealing with capital flows. Clearly, capital flow volatility poses considerable challenges to emerging economies' policymakers in safeguarding financial and macroeconomic stability. While the global community continues to debate and explore possible solutions to manage spillovers and spillbacks of policies in advanced economies, for emerging economies, there is a need not just to preserve existing tools available to us, but to constantly refresh our policy toolkit to deal with the multifaceted risks confronting our economies and to be flexible in implementing them.

Pragmatism is key. Policy configuration will need to be pragmatic and premised on the risk that is being managed. Indeed, macroprudential policies have been found to be effective in managing financial cycles and associated risks, such as excessive credit growth and asset price inflation. Nevertheless, sizeable shifts in capital flows could cause disorderly financial market conditions and excessive exchange rate movements. In pursuit of preserving stability, policymakers must therefore be able to avail ourselves to a broad range of policy toolkit.

Globalisation of Human Capital

Lastly, I will briefly touch on what globalisation means for the average person in today's economy. Being skilled alone is no longer a guarantee of employment. With offshoring of jobs, workers are now competing in a fluid workplace, against a global workforce. A job that is available locally today can be effortlessly transferred to a different country tomorrow.

Essentially, the increasingly dynamic nature of work underscores the importance for workers to constantly adapt, re-skill and up-skill. A global workforce also means that borders no longer limit the search for preferred jobs. In fact, globally, 258 million people, almost the size of Indonesia's entire population, are living in a country that is not of their origin.

Another aspect is the intensification of globalisation of information. Technology has brought the world into the palm of our hands. Last year, 3 in every 4 persons were active on a social media platform. In fact, if Facebook were a country, with 1.5 billion active users, it would be the largest country in the world today. In the span of a decade, social media has become a bona fide global marketplace, marketing tool, recruitment platform and social scene.

All this points to the double-edged nature of globalisation: While it may have brought people closer together, it also introduces the challenge of promoting greater appreciation of cultural, ideological and sociopolitical diversity.

Conclusion

Globalisation, once envisioned to be a beacon of unity, has fueled increasing polarisation in recent years.

Let's remind ourselves that in this globalised world, it is important for the contented to appreciate the struggles of the discontented. And, for the discontented to not lose sight of the potential that globalisation holds. And for all of us, to remember – that 75 years after Bretton Woods – the creation of a safe, fair and mutually beneficial global system is still not an easy pursuit. It is, nonetheless, a necessary one.

Once again, I would like to welcome everyone to Sasana Kijang. The World Bank, a product of

Bretton Woods, along with the IMF and WTO, has brought to Malaysia an amazing gathering of thought leaders and experts on globalisation from all over the world. The next two days will indeed be a fine example of globalisation in action.

Let me end with a passage from John Maynard Keynes which I think is appropriate for the occasion.

"Yet the new economic modes toward which we are blundering are, in essence of their nature, experiments. We have no clear idea laid up in our minds beforehand of exactly what we want. We shall discover it as we move along and we shall have to mould our material in accordance with our experience. Now for this process bold, free and remorseless criticism is a sine qua non of ultimate success. We need the collaboration of all the bright spirits of the age."