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MAHATHIR-POLICY

DR MAHATHIR UNDERLINES 10 POLICY FOCUS TO ACHIEVE BALANCED GROWTH

KUALA LUMPUR, Oct 30 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad today underlined 10 policy focus on the Mid-Term Review of the Eighth Malaysia Plan (8MP) in the government's continuous effort to achieve a balanced and sustainable growth for the period 2004-2005 to build Malaysia into a united, socially just, resilient and competitive nation.

Dr Mahathir, who will retire tomorrow after leading the nation for 22 years, said that the country has achieved credible economic growth despite being adversely affected by the volatile global economy during the first three years of the 8MP.

In tabling the motion on the Mid-Term Review of the 8MP in the Dewan Rakyat, the Prime Minister said that the policy focus of the Mid-Term Review is

- \* reinforce macroeconomic fundamentals;
- \* bolster economic resilience to better withstand shocks;
- \* retool the economy to enhance its competitiveness;
- \* reactivate private investment in particular local sources to assume its role as the engine of growth;
- \* venture into new areas of growth;
- \* accelerate the transition from low technology and labour intensive economy to one that is high technology and knowledge-based;
- \* increase supply of quality human resources to meet the demands of an economy that is moving to higher value added activities;
- \* develop a more equitable society to ensure everyone benefits from development;
- \* promote an exemplary value system compatible with high achievement by all communities; and
- \* enhance international cooperation for prosperity.

Dr Mahathir, who is tabling his policy speech in Parliament for the last time, stressed that the policy thrusts of the Third Outline Perspective Plan and the 8MP will be continued to address these challenges.

In addition, the Mid-Term Review will build upon the package of New Strategies introduced in May 2003 to address domestic and external problems.

He said that the first three years of the 8MP have been exceptionally challenging for Malaysia due to unforeseen circumstances. It began with the slowdown in the global economy caused by the downturn of the US economy and collapse in world electronics demand.

This was aggravated by the Sept 11 incident in the US in the same year and after a short breather in 2002, the events in the first half of this year, particularly the invasion of Iraq and the Severe Acute Respiratory Syndrome (SARS) outbreak have again negatively affected economic recovery.

However, Dr Mahathir said that the Malaysian economy was able to recover with growth this year estimated at 4.5 percent.

During the review period (2001-2003) the economy continued to expand and registered a real Gross Domestic Product (GDP) growth of 3.0 percent even though the external factors and the large share of electrical and electronics goods, which accounts for around 70 percent of manufactured exports still prevails.

"We should take pride that our per capita income rose by 2.4 percent per annum from RM12,843 in 2001 to RM14,324 in 2003.

"Measured in terms of purchasing power parity, the improvement in per

capita income would be more impressive, growing at an average rate of 3.9 percent per annum to US\$9,380 in 2003," he said.

Dr Mahathir said that growth was achieved in an environment of stable prices and low unemployment while the external trade position of the country was also strong as reflected by the sizeable surplus in the current account of the balance of payments every year.

In addition, the fiscal deficit remained within prudent limits despite the increase in public expenditure as a result of the government's pump-priming efforts.

The Prime Minister said that the government also managed to reduce the incidence of poverty by providing better housing and basic amenities, particularly to those in the low-income group and improve the quality of life of all Malaysians.

"Although we expect the global economic environment to improve during the remaining Plan period, we must be prepared to meet new challenges that will test our resilience, productivity, resourcefulness and innovative capabilities," he said.

He added that that external environment, both politically as well as economically, will continue to be of key concern.

The Prime Minister said that while it is acknowledged that globalisation could contribute towards increase in trade and capital flows across countries, its present interpretation will benefit the rich countries more because the stress is on free trade and not fair trade.

As such, he said that the stress on competitiveness will also benefit their giant corporations.

"We try to change the globalisation agenda through the WTO (World Trade Organisation) but in the meantime we must prepare to compete in an inequitable environment. If Malaysians want to continue to succeed they have to find a niche where they can achieve world quality. They have also to improve their marketing skills so as to gain a place in the value chain," he said.

Dr Mahathir also said that the country would see increased competition from new players in the global market, including China and India, which are fast emerging as attractive centres for investment in the production of goods and services with high technology.

Dr Mahathir, who is Finance Minister, said that the government would continue to pursue sound macroeconomic policies to ensure strong fundamentals, such as low inflation rate, adequate savings, healthy balance of payments, stable exchange rate and prudent fiscal position.

Efforts will also be taken to strengthen economic resilience and developing a more efficient financial sector and capital market as well as improving risk management and corporate governance.

He said that the macroeconomic prospects for the next two years are expected to be promising with the real GDP projected to grow at an average rate of 6.0 percent per annum consistent with the long-term potential output of the economy.

"This growth rate will put us back on track to realise the development targets set out in the National Vision Policy and Vision 2020.

"Based on this rate of growth, per capita gross national product (GNP) will increase by 4.4 percent on average to RM15,600 and in terms of purchasing power parity will be faster at 5.5 percent and will reach US\$10,400 in 2005," he said.

The Prime Minister said that growth is expected to be supported by strong domestic demand and sustained world economic growth as well as the private sector demand which will be the driving force of the Malaysian economy.

"We expect private sector investment to turn around and grow at about

12 percent per annum in response to the improved domestic and external demand. Small and medium scale enterprises (SMEs) will be used as the catalyst to spur domestic investment.

"We would like to see the SMEs playing a bigger role in the economy as in countries such as Japan, South Korea and Taiwan. To increase the dynamism of SMEs, concerted efforts will be made to upgrade their technological capability, promote greater usage of information and communications technology (ICT) as well as increase their ability to innovate and develop new products with own brand names," he said.

Dr Mahathir said that efforts will also be taken to improve the access of SMEs to financing, including customising the financing facilities to suit their needs.

He said that while the government would continue to promote foreign direct investment, there would also be more focus on local sources of investments.

He said that private consumption is expected to remain robust and grow at 7.0 percent per annum basically driven by improving consumer confidence and increasing disposable income.

The favourable fiscal and monetary policies, brighter employment prospects, recovery in external demand, better commodity prices and the positive wealth effect from a buoyant stock market will promote private sector consumption.

"Our policy is to maintain low interest rates and increase accessibility to financing is also expected to increase demand for consumer durables," he said.

However, Dr Mahathir said that the government will reduce public sector investment to a more sustainable level in the next two years to commensurate with the expected recovery in private sector investment and the strong growth in public consumption.

He said that with better prospects in world trade, Malaysian exports are expected to expand at 7.4 percent per year and the surplus in the merchandise account that was sustained during the review is expected to continue.

The deficit in the services account will be reduced because of higher inflows from tourism, education, transport, finance, health and professional services.

For the remaining Plan period, the current account is expected to remain in surplus at 10 percent of GNP in 2005.

Dr Mahathir said that the manufacturing and services sectors would continue to be the major contributors to growth with the manufacturing sector expected to return to the high growth of 7.8 percent per annum.

Growth will result from the electronics and electrical subsector and the transport equipment subsector, he said.

Meanwhile, the services sector is expected to grow at 6.0 percent per annum, contributed mainly by the finance, insurance, real estate and business services; the wholesale and retail trade; hotels and restaurants; and transport, storage and communications subsectors.

The Prime Minister also said that the government would take initiatives to provide a more business friendly environment which could help to generate wealth.

"We will continue to try to reduce the cost of doing business, review the incentive structure, improve the market and ensure the supply of manpower in keeping with the technology and needs of the market," he said.

Dr Mahathir said that the manufacturing sector would continue to face new challenges from emerging economies.

However, despite being adversely affected by external factors since the 1997/98 Asian financial crisis, this sector has remained critical to

economic growth.

In 2003, the sector contributed 30.6 percent of the GDP, 83.0 percent of total exports and 27.8 percent of total employment.

He said that the government has adopted various measures to minimise the adverse impact of external conditions on the sector through stimulus package which was introduced during the review period and provide tax incentives as well as enhancing human resource development.

Funds for training and retraining were established to raise the productivity and efficiency of the workforce, Dr Mahathir said.

As such Dr Mahathir said that it was important for the manufacturing sector to expedite the shift to high technology and knowledge-based industries.

In line with this, the government would focus on reducing red tape, reviewing work processes and streamlining procedures, in order to create a business-friendly environment.

To increase industrial productivity, including SMEs, the government will support the establishment of trading companies similar to Japan's "sogo shoshas" to become the conduit for the marketing of Malaysian products abroad.

However, Dr Mahathir said that local companies must be prepared to pay a reasonable commission for this service while the "sogo shoshas" companies should provide the best service to the markets and buyers abroad.

The Prime Minister said that to increase the capacity and capability of the SMEs a broad range of programmes will continue to be implemented to ensure that they are reliable suppliers to lead companies and their operations worldwide.

In line with the Small and Medium Industry Development Plan, SMEs would continue to be provided with financial, managerial and technical know-how, Dr Mahathir said. -- BERNAMA

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