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DR. MAHATHIR OPENS ECONOMIC CONVENTION

Speech by the Deputy Prime Minister, (Dr. Mahathir bin Mohamad, at the opening of the Economic Convention organised by Malaysian Economic Society at the University of Malaya, Kuala Lumpur on May 19, 1976, at 10.00 a.m.

PUBLIC POLICIES FOR RESTRUCTURING SOCIETY

It is not possible for me in this brief address to discuss comprehensively the whole range of public policies which have been initiated by the government to achieve the restructuring goal under the Second and Third Malaysia Plans. Suffice to say they are revolutionary in both design and method of fundamental concept of managing and controlling economic growth and development. Essentially, the restructuring goal of the New Economic Policy is the readjustment of the distribution of the productive assets of the country within the context of growth so that globally by 1990 Bumiputras will own approximately 30%, non-Bumiputras 40% and the remainder for foreigners. In order to achieve this broad goal the government has designed and implemented a set of macro and micro policies. Primarily, these policies define the process or method as to how specific targets within the global objectives can be achieved. Policy coordination and rationalisation, i.e. coordination of the implementation of various macro and micro policies has been defined and constitute a crucial management function under this Plan.

The Structure of Public Policy

In order to understand the underlying theory for the restructuring goal of the New Economic Policy, it is necessary to examine the economic structure obtaining before the NEP and the possibilities presented by it for restructuring.

Firstly, however, a number of broad generalisations has to be made regarding the character of policies under the restructuring goal.

When the New Economic Policy was introduced in 1969/1970 it was designed on the complementation principle, i.e. a set of public policies to assist the growth of Bumiputra participation in the economy was blended with an existing economy system which was basically free enterprise in character. Thus during the Second Malaysia Plan period this process enabled apparently diverging policies to merge and become part of the system which today governs the development and management of the economy. By the time of the implementation of the Third Malaysia Plan the integration of old policies with the New Economic Policy has already gelled into a recognisable and distinct policy system capable of being a basis of Third Malaysia Plan itself. The macro and micro policies which will be discussed is therefore the policy structure which now regulates the economy as a whole. The New Economic Policy is no longer superimposed or independent of other national macro and micro policies. It has emerged as the primary policy dictating the design and future policy development of the government.

From a macro standpoint, the New Economic Policy has two primary goals, namely, poverty eradication, and the restructuring of society in order to eliminate extremes in social and communal disparities. The policies are interdependent because if the incidence of poverty is reduced, it will also help to eliminate disparities considering that the percentage of poverty among bumiputras is greater.

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The productive asset redistribution objective is therefore enhanced through poverty eradication. Similarly, the modernisation of the economy through expansion of the manufacturing and service sectors induced by a combination of monetary and fiscal policies of the New Economic Policy "pulls" excess labour from the agricultural sector into the more productive and growth orientated sectors where Bumiputra equity participation and employment are presently under-represented and where incomes are traditionally higher. Thus poverty eradication is in fact restructuring and vice versa.

The set of micro policies are so designed as to enhance the macro goal of the New Economic Policy. The structure of these micro policies which will accelerate the restructuring motive can be briefly described as follows :-

(i) Monetary Policies

A set of policies has been devised which regulates the supply and utilisation of money available to financial institutions so that certain desired institutional behaviour contribute to the enhancement of Bumiputra participation in the economy;

(ii) Taxation Policies

Taxation as an instrument for regulating and redirecting the growth of the economy is universally recognised. Accordingly tax incentives and obstacles are extensively used to promote or discourage the type and structure of investments so as to fulfil the objectives of the New Economic Policy. These tax policies cover a wide area which include tax holidays, tax credits, locational benefits, etc.

(iii) Development Policies

These primarily are a series of sectoral policies directed at achieving growth in specific areas and direction of the economy. Included in this exercise are the policies of the agricultural sector, the industrial and trade sector, the mining sector, etc. Typically the selection of projects and provision of facilities are premised upon the capability to achieve or contribute towards either the poverty eradication or restructuring goal of the New Economic Policy:

(iv) Investment Policies

These include a set of micro policies which are designed to enlarge public sector participation in the economy in those areas and industries where Bumiputra participation is presently lagging or to perform a catalyst function for their development. The public corporation sector is presently the fastest growing sector in the economy and are largely responsible for the achievement to date of the targets of the New Economic Policy;

(v) Socio-Economic Policies

These policies are largely orientated towards the creation of skills and values considered compatible with the goals of the New Economic Policy. Quite obviously the New Economic Policy cannot succeed unless there is understanding by the people concerned of a monetised economy and the philosophies involved in modern management and organisation. A reorientation towards new value systems is involved here.

Translating all these policies into result producing action is anything but easy. Not only must existing facilities be utilised and new agencies formed, but a super human effort at coordination and supervision is required.

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As a result of up-to-date information and analysis we have identified implementation system and corporate financial control as the primary problems facing the Third Malaysia Plan. At the central level, we have already designed a statistical monitoring (control) system on equity, employment and management. However a monitoring or control system designed to track inefficiency at the Corporate level has not been devised. If implementation inefficiency is not corrected, the benefits originally conceived when the projects were selected would not materialize. A monitoring or control system enables early detection of mistakes or inadequacies which consequently will lead to early corrective procedures which will enable that original expectations are realized. The importance of an early development of an effective monitoring system is fully appreciated and the primary agencies concerned have been directed to work on it.

Policy Analysis

I will now return to the basic instruments which are expected to influence the achievement of the restructuring goal of the New Economic Policy.

(1) Monetary Policies.

If at the beginning of the New Economic Policy the Bumiputras own slightly over 1% of the productive assets of the country and they are expected to achieve 30% ownership in an expanding economy by 1990, then it is clear that radical changes must be made in policies which directly affect the economy. According Monetary policies have been redesigned to facilitate the desired changes. There are three areas where this has been done.

Firstly, the lending behaviour of Commercial Banks. Commercial Banks in the country have been directed to lend out 20% of the increase in loans and advances to small Bumiputra entrepreneurs for project development. To do this effectively a Credit Guarantee Corporation was set up. As at the end of 1976 under the CGC arrangement, the Commercial Banks had lent out approximately \$168 million to 30,633 Bumiputra entrepreneurs who are attempting for the first time to participate in the economy by organising and managing enterprises. The same directive has been extended to Finance Companies. Under the Credit Guarantee Lending System, some commercial banks, especially Bank Bumiputra have played active roles directly assisting Bumiputras through the project planning, production and marketing stages of a project. The interest rates charged on loans falling under this system is reasonable (a maximum of 10% per annum) considering the absence of collateral. Loans up to \$20,000 without collateral can be obtained under this Scheme. In addition Bumiputra entrepreneurs can obtain guaranteed facilities up to \$200,000 for project development. The Bumiputra community is also assisted indirectly as for example when commercial banks are required to direct a minimum of 10% of loan increase for agricultural production. The scheme however is not available to Bumiputras alone. To achieve poverty eradication non-Bumiputras too must benefit from this scheme.

Secondly, under existing directions Commercial Banks are required to orientate their lending policies according to a list of priority investments established by the government. Investments consequently are directed to less productive areas of the economy in line with the New Economic Policy.

Thirdly, the Merchant Banks of the country have been given guidelines to invest in public sector projects, which as stated earlier have been selected on the basis of their contribution to the New Economic Policy objectives. There is a growing increase of Merchant Banks investments in public corporations projects and infrastructure projects of the government.

(ii) Taxation Policies

One of the most important instruments to promote the growth and development of the restructuring goal is the formulation of suitable tax incentives for private and foreign investors. Specifically there are five major tax incentives (Pioneer Status, Investment Tax Credit, Labour Utilisation Relief, Locational Incentive and the recently announced Export Incentive). It is the application of these tax incentives which has resulted in a total capital investment of \$5,799 million and the creation of approximately 293,782 jobs out of 500,000 jobs in the Second Malaysia Plan.

To indicate the magnitude of the contribution of these tax incentives to both employment and equity, FIDA records show that 47.5% of the entire projects approved under the Second Malaysia Plan Period were granted tax incentives. In accordance with the objectives of the New Economic Policy these projects approved under the Tax Incentive Schemes carry with them conditions of employment and equity participation. The Plan document states clearly that the pioneer industries account for Bumiputra employment of approximately 50% while the Bumiputra managers and professionals increased from 17% to 22% over the Plan period.

On equity, the restructuring process which is centred on the Foreign Investment Committee-Capital Investment Committee operation determines precise conditions for equity participation for different categories and types of industries. Essentially the conditions of equity participation attempt to balance between the twin goals of Malaysian ownership on the one hand and the continuous in-flow of both capital and technology for the modernisation of the economy. Because of the conditions of equity ownership imbedded in the tax incentive systems, over the Second Malaysia Plan period, Bumiputra equity has apparently increased substantially.

In conformity with the provisions of the Constitution, the taxation system of the country does not differentiate between Bumiputra and non-Bumiputra corporations. Both are eligible for the same tax incentives. The Government has perforce to rely upon a combination of developmental, monetary and institutional approaches in order to increase Bumiputra equity participation in the economy. In any case there is now overwhelming evidence to indicate that the major problem of Bumiputra entrepreneurs is one of corporate financial management. In this respect, the Government intends now to review the entire entrepreneurial development programmes of the major restructuring agencies.

(iii) Development Policies

The sectoral policies of the economy is extremely complex. They take into consideration not only social and economic factors, but weighs carefully the needs of regions and States as well as sectors within the total economy as well.

The agricultural sector as one of the developmental areas require specific policies with regard to the following :-

(1) the extension of agricultural services (research, subsidies, credits, etc.); (2) infrastructure development centred primarily on drainage and irrigation systems; (3) land development; (4) regional development.

Of the four major policies in the agricultural sector, the most direct policies contributing towards the restructuring goal is (3) and (4). The government's land development policy centred primarily on FELDA and RISDA has resulted in Bumiputras increasing their participation in the

The government under the Second Malaysia Plan invested substantially in regional development and will continue to make a large investment in this area under the Third Malaysia Plan. The general "theory" for regional development is to pull in excess agricultural population from institutional agriculture with an urban-industrial base which in turn will lessen the pressures on existing urban centres. Approximately \$12 billions will eventually be spent on the three major regional development authorities. A fourth is now being planned in the South Kelantan area. It is too early to make an evaluation of the potential of these regional development areas in the restructuring goal of the New Economic Policy but if Jengka is any example, the potentials are indeed good. Jengka will eventually support approximately 62,000 individuals by 1980. The urban industrial centres in these Regional Development Authorities are designed to provide a catalyst for a basically, but not exclusively Bumiputra industrial and commercial community.

It has earlier been stressed that the employment restructuring goal of the New Economic Policy is largely dependent on our tax incentive systems. However in certain cases involving large private investments and in specific industries, legal instruments have been provided for achieving the same objective. The Cabinet Committee on Investment has made major changes in these instruments within the context of our constitution. These amendments represent a major concession on the part of Government and reflects the commitment to see that the full realisation of the employment and equity goals of the New Economic Policy without stifling growth.

Generally the government is moving towards a concept of integrated policy planning with the private sector. The approach is pragmatic and flexible. We have consulted and intend to consult the private sector on most major policy changes. Complaints and feedback from the private sector are taken seriously and acted upon. One of the most important concepts developed by the Cabinet Committee on Investment was that of public/private sector partnership in development. This partnership is becoming more real as communication improves between the two sectors. Tangible results have already been obtained as evidenced by the micro policy changes, legislative amendments and the "package deal" approach to bureaucratic procedures.

The restructuring potential of the educational systems has been discussed often and there is no need for any special elaboration. The success of the educational system can perhaps be seen from the recent statistics on examination passes at the LCE and MCE levels respectively. They indicate a gradual evening out process between the rural and urban educational centres, between the different states in the country and even between communities. The Ministry of Education is now vigorously implementing a policy emphasising the teaching of science and mathematics to meet the manpower requirements of the country as forecast.

The government policy for the transport, communication and utilities sector is to provide the basic infrastructure development and facilities to complement the development and growth of private enterprise especially industries and housing. The choice of projects in these sectors are on the basis of their contribution to the concept of regional balance which is implicit in the New Economic Policy. Thus, over the Second and Third Malaysia Plans there has been a marked emphasis on the feeder road network of the country with a view to providing incentives for the dispersal and relocation of industries. Port development has similarly been undertaken on this premise complementing and reciprocating the regional development of the area around it, i.e. Kuantan for Jengka and DARA as well as the East Coast, Pasir Gudang for Johore Tenggara and the Southern part of the Peninsula. Utility development however is still largely concentrated in the urban centres but the Third Malaysia Plan has substantially increased the utility allocation for the rural sector through changes in the financing roles, with the Federal Government absorbing the portion once paid by State Governments. This measure should accelerate utility development in the rural areas over the Third Malaysia Plan period.

Investment Policies

Over the Second Malaysia Plan we had an accelerated growth of public corporations to implement the programmes and projects of the New Economic Policy. Primarily the aim is to increase the equity stock held by Bumiputras by having public corporations invest directly in the corporate sector either on a project basis or through acquisitions and mergers. The growth of public corporations has now stabilised and over the Third Malaysia Plan period the strategy is one of consolidation and improvement of the management of the public corporations. The government allocated approximately \$1.7 billion to increase the equity stock of Bumiputras.

One of the areas of conflicts which require resolution is the need for a clear distinction to be made between the role of the Bumiputra entrepreneur and the public corporation in the corporate sector. Reports from the Bumiputra entrepreneurs indicate that in some specific instances, public corporations have competed against both Bumiputras and non-Bumiputras for public sector contacts. When the New Economic Policy was designed it was never the intention of the government for public corporations to compete against Bumiputra entrepreneurs. It is obvious that new policy guidelines are required to re-define more clearly the respective areas of economic participation. Generally though, the public corporations should perform the role of a catalyst for Bumiputra entrepreneurs.

Socio-Economic Policies

One of the major socio-economic policies initiated by the government to increase Bumiputra participation in the economy is the entrepreneurial development programme. It is the most widely distributed programme of the government involving most of the principal restructuring agencies of the government. The basic model of entrepreneurial development implemented by each of these institutions tend to be the same and there is as a consequence a substantial amount of duplication and overlap. There are however some basic differences. MARA for example concentrates on advisory services, NPC on training and Bank Pembangunan on loans and equity, to cite a few examples of different approaches.

It will become a major task of the government to rationalise and coordinate the various programmes so that would-be Bumiputra entrepreneurs would be upgraded in terms of at least their knowledge of the services, facilities and incentives provided for them. Some areas of entrepreneurial developments for example production, marketing and financial management have not been given the necessary emphasis, although these tend to be areas where Bumiputra entrepreneurs require the most assistance. In addition to rationalisation, it may be necessary to redesign the programme itself in order to provide for more meaningful assistance to Bumiputras.