

Malaysian Prime Minister Mahathir At Int'l Conference:

“Malaysia: A Powerhouse Of The '90s”

The following are excerpts from the speech by Malaysian Prime Minister Mahathir bin Mohamad at the international conference titled “Malaysia: A Powerhouse of the Nineties” at the Shangri-la Hotel, Kuala Lumpur, on Nov. 15, 1993. — Ed.

The purpose of my address today is to present some thoughts on Malaysia's course today and in the future. As I am today among the leaders of the foreign business community it is apt that my address highlights the state of the Malaysian economy today and its promise for the future, particularly in the context of Vision 2020.

Vision 2020 is the crystallization of Malaysia's ambitious target to become a fully-developed nation in every sense of the word: socio-economically, technologically, politically and from the ethical and spiritual viewpoints. The establishment of a competitive economy must mean, among other things:

- A diversified and balanced economy with a mature and widely based industrial sector, a modern and mature agriculture sector and an efficient, productive and equally mature services sector;
- An economy that is quick on its feet, able to quickly adapt to changing patterns of supply, demand and competition;
- An economy that is technologically proficient, fully able to acquire, adapt, innovate and adopt the latest in modern technology and to keep up with it;
- An economy that has strong and cohesive industrial linkages throughout the system;
- An economy driven by brain-power, skills and diligence, in possession of a wealth of information, and able to utilize it;
- An economy with high and continuously increasing productivity at every phase of the process;
- An entrepreneurial economy that is self-reliant, outward-looking and prudently adventurous;
- An economy characterized by low-inflation and low cost of production; and
- An economy that is geared to the full discipline and rigors of market forces.

Without the above economic virtues, or a substantial portion of them, it would



Malaysian Prime Minister Mahathir bin Mohamad

be impossible to attain the required growth of 7% per annum and a per capita income of over RM30,000 by 2020, a four-fold increase over today's per capita income. If we take the Purchasing Power Parity (PPP) approach, our current PPP is equivalent to a quarter of the USA's PPP and about 40% of Japan's. By 2020, Malaysia's standard of living in PPP terms, at current values, will translate into material standards on a par with or better than those enjoyed by the world's most prosperous nations.

The structure of production is expected to change with the share of manufactur-

ing stabilizing at about 40% by 2020. But more critically, although agriculture is expected to account for only 6% of GDP, value-added growth will ensure that it is capable of supplying the nation's food needs and enjoy a competitive export niche.

Our export and trading base is expected to expand vigorously as in the past, with exports being made up of high quality and high value-added items. Trade flows will shift more towards East Asian destinations. This is inevitable given the current size of East

Asia's contribution to world GDP and its share of world exports. Total East Asia GDP is 21% of the world's GDP at US\$4.4 trillion while its share of world trade is also 21%. East Asia has a population size 31% of the world total.

The dynamism and youthfulness of the region and its high savings and investment activities will keep it dynamic for years to come. We are all convinced that the Pacific decade is round the corner, if not already here. Hence the expected contribution of East Asia to Malaysian trade.

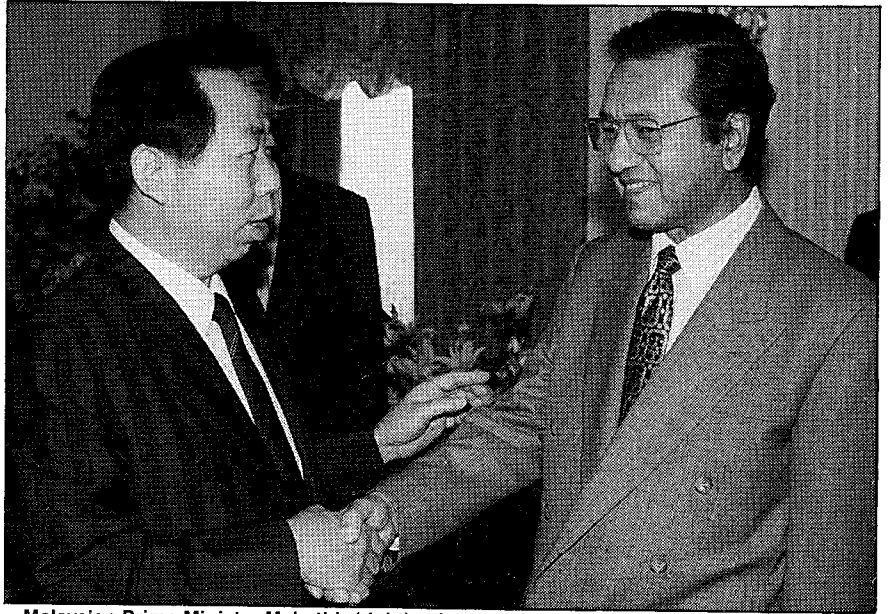
You may well ask how Malaysia plans to achieve the target growth of 7% per annum. Well, the key to sustaining growth at 7% per annum lies largely in stimulating a high rate of investment. The private sector will have to take the lead while the Government will continue to ensure that stable socio-economic and political conditions are maintained and even enhanced.

Malaysia has been quite successful in improving the physical, legislative, administrative and financial infrastructures so as to sustain investments at 34 to 35% of GDP in order to achieve growth. These were achieved even when the targets of Vision 2020 had not been determined. With the new long term plan the target is not too far-fetched. A high rate of domestic savings, currently at 35% of GDP, will provide the necessary funding.

We foresee private investment being upgraded into higher value-added technology-oriented and more productive sectors with export potential. There will be a higher degree of indigenous capability in order to enhance domestic economic resilience. The recent implementation of the domestic investment initiative and the setting up of the Small and Medium Industries (SMI) Authority are part of these policy measures.

The structural transformation envisaged by Vision 2020 also means that human resource and labour must continuously be upgraded in order to meet the needs of the higher value-added and technology-oriented sectors. This upgrading process will require the combined efforts of both the Government and private sectors. This is the reason why the Government today is focusing seriously on education as an industry rather than merely as a basic social facility provided by the Government. Educational and training services will contribute towards economic growth even as they cater to the nation's manpower needs.

In the current competitive international investment climate, a principal challenge is to create and maintain conditions and an environment that will be more attractive than those offered by other competing nations. This is especially critical when managing success. This may appear to be contradictory but conditions of success create ever higher expectations



Malaysian Prime Minister Mahathir (right), who was visiting Seoul to participate at the 26th general session of the Pacific Basin Economic Council (PBEC), held from May 22 to May 25, 1993, in Seoul, with Dr. Thok-kyu Limb (left), chairman of DIPLOMACY, after their exclusive interview.

and are therefore more difficult to improve upon. Yet they have to be improved if the pace is to be kept up.

While we are in control over local conditions, we are much less able to ensure greater freedom in global trade. Keeping world trade free is becoming more difficult and elusive. GATT was born after World War II. After 40 years of negotiations, during which time markets and processes have become increasingly global, we appear to be no nearer to achieving the goals of liberalizing and increasing world trade.

Perhaps a paradigm shift towards open regionalism, espoused by many liberal thinkers in the East and West, is what is needed to spur freer and greater world trade and stimulate investments. And the economic and other malaise that affect both Europe and the United States can and should be remedied through harnessing the East Asian economic engines and through greater openness, greater liberalism and greater free competition.

Malaysia's success, within the East Asia Group, in attaining and sustaining high socio-economic growth and progress, is clearly due to its commitments, acceptance and practice of these principles. Malaysia should be able to achieve its objective of becoming a fully-developed and forward-looking industrialized nation within the next three decades because it is now laying the kind of strong foundations and attitudes compatible with this objective.

Vision 2020 has in fact become a unifying dream and target of every responsible Malaysian citizen. Successive governments can thus be expected to work towards this Malaysian dream if they wish to get the support of the people.

The creation of a unified market in Western Europe, the democratization of

East Europe and the former republics of the Soviet Union, the structural changes being undertaken in these countries along market-based principles, and the end of the Gulf War, provide increasing opportunities for developing countries like Malaysia to expand their trade. Malaysia must take advantage of the potentials of all these changes in its efforts to expand and globalize its trade.

However, our experience has shown that free trade is more honored by works than by deeds. Rising protectionism, lack of policy coordination among developed countries on monetary matters, the slow progress towards agreement at the new Uruguay round of the GATT negotiations, and above all, the emergence of new trading blocs, such as NAFTA and the unified markets of the EC, render free trade almost meaningless. For trading nations like Malaysia it means that growth and development will be retarded.

It is in order to reduce dependence on the traditional trading partners that Malaysia has embarked on an aggressive program to find and develop new export markets. Our interest in South-South trade; our initiatives in the G-15 nations; our active participation in regional organizations like ASEAN, as well as our attempts to form the East Asia Economic Caucus (EAEC) as a bulwark against trade blocs; the establishment of new trade and investment links with developing countries in South East Asia and the newly independent Central Asian republics of the former Soviet Union, represent efforts to diversify trade links and create a fairer and mutually beneficial trading relationship between nations.

These actions, we believe, will not only circumvent the effects of managed trade by the Euro-American blocs but also will help increase world trade as a whole. They will counteract some of the negative effects of rising trade protectionism by

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certain developed countries.

Our ultimate objective is to ensure that the targets we have set in our thirty-year plan are met. So far we have held steadfast to our beliefs in free trade and open regional non-exclusive grouping. The next twenty-six years will be fraught with challenges, both in the international economy and the domestic economy. We will continue to be positive, innovative and pragmatic in our approach. We will work closely with the private sector in order to maximize our capabilities.

The overall performance of the manufacturing sector is expected to remain strong in 1993 with an anticipated 12.5% expansion in output, higher than the 10.5% achieved in 1992. The buoyant outlook is based on the unexpected growth in the external demand for manufactured goods despite protectionist trends and the poor economic performance of our major trading partners. For 1993 as a whole, the contribution of the manufacturing sector to GDP is expected to increase to 30.1% from the 28.9% esti-

mated in 1992.

Private investment in the manufacturing sector grew at an average rate of 50% per year between 1987 and 1990. This was as a result of several measures adopted by the Government whereby foreign equity guidelines were liberalized and the Promotion of Investments Act 1986 was passed to provide a package of incentives for investments in the manufacturing sector.

Steps were also taken to encourage a greater private sector role through privatization, deregulation and liberalization of rules and administrative procedures. The Industrial Coordination Act 1975 was also amended to exempt manufacturing establishments with less than RM2.5 million shareholders' funds or employing less than 75 full-time employees from compliance with the provisions of the Act on ownership.

The favorable economic environment in the country attracted significant inflows of foreign investment as manufacturers from Japan and the dynamic Asian economies began to relocate their industries in this region. The huge increase in manufacturing investments was also

accompanied by a significant shift towards more capital-intensive and higher-technology industries from labour-intensive industries.

The Government will continue to encourage greater private investment initiatives whilst ensuring that the public sector does not crowd out activities in the commercial and business sectors. Necessary support will be provided to strengthen and enhance the role of the private sector. The tax system will be continuously reviewed to enhance its competitiveness.

It is recognized that success also carries a cost and creates problems and issues of its own. Where these involve the domestic economy, they are not impossible to manage. But external problems do not lend themselves to easy solutions. Wherever adjustments have to be made in order to accommodate international demands, they will be made. But at the same time Malaysia must participate fully in the search for a more equitable and open world trading regime. Aggressive and high profile international trade affairs for Malaysia are therefore unavoidable. ★