

**SPEECH BY
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MEETING, AT MANDARIN ORIENTAL, KUALA LUMPUR
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1. Firstly, I would like to welcome all Asean Labour Ministers and your delegation members to Kuala Lumpur. I would also like to take this opportunity to welcome all three dialogue partners of Asean - Japan, South Korea and the Peoples' Republic of China - who have joined this forum for the first time. An annual meeting of this nature is important to address the ever-changing dynamics of the labour market, driven by the internal and external factors. It is important that these factors be addressed in a concerted manner so as to safeguard the interest and welfare of our workers. And it is especially important in the light of globalisation which has brought about great linkages among national economies. What happens to one region can have a direct impact on another. We saw how the Asian financial crisis developed into a contagion that affected other parts of the world.

2. In light of this, we should be prepared to face any eventualities, any pressure, intentional or unintentional that might result in our workers losing their livelihood. Our developing economies must guard against the adverse effects of globalisation that is detrimental to the growth of our national economies and to the job opportunities for our people. While we should welcome the ideas about globalisation, free trade and deregulation, we should ensure that the interpretation of these processes will not become a burden for our workers, whose well-being is our responsibility. In particular, we must approach these issues carefully.

Ladies and gentlemen,

3. In recent years the transaction of goods and services has been profoundly transformed by developments in information and communication technology (ICT), especially through the medium of e-commerce. Traditional means by which goods and capital were transacted are disappearing. E-commerce has opened new horizons whereby small and localised business establishments can go global overnight through their ability to reach their potential customers in real time, anywhere in the world.

4. ICT has made all of this possible. The capability of these technologies to permeate into all levels of communications and remodelling of business processes with lower cost implications have contributed towards enhanced competitiveness in the business world. This digital revolution that we are witnessing has paved the way for the birth of the knowledge economy, where knowledge is most important factor of production and economic growth is fueled by the accumulation and application of knowledge. This has become a formidable challenge to many developing countries which lack the basic infrastructure to acquire this capacity.

5. This digital revolution is accelerated and complemented by the borderless world of globalisation, where trade has become freer and unencumbered from barriers and tariffs. Globalisation is supposed to bring with it benefits in the form of economic efficiency and lower production costs. It promises new wealth creation for both developing and developed countries. However, globalisation in its present form is

driven by a few developed nations, which results in a winner take all, zero sum game. The terms and conditions to participate in international trade are determined by the rich and powerful without paying much attention to the status of development of the large majority of countries incapable of complying with it.

6. But the wave of globalisation and liberalisation seems too strong for developing countries and regions, such as ours, to resist. It appears as though international economic integration through trade liberalisation and industrial deregulation must be supreme and overrides everything else. If this process destroys whole countries and regions, impoverishes millions of people, destabilizes governments and results in the displacement and retrenchment of thousands of workers, all these must be accepted unquestioningly because everyone is blindly marching to the tune of globalisation. Globalisation has become somewhat like a religion which must be believed in at all cost. If you do not believe in it, you are branded a heretic and will be ostracised by from the international capital markets.

7. My country is well aware of the benefits that globalisation brings. We are one of the most trade dependent countries in the world, we have benefited greatly from foreign investments and we, ourselves, promote reverse investments by our corporations globally. In that sense we are a consenting member of the globalised world. However, this does not mean that we accept its tenets lock, stock and barrel. The lack of regulation over highly leveraged institutions, the absence of any mechanism that could monitor the rapid flows of hot money and financial sector liberalisation that was too rapid resulted in the Asian financial crisis that debilitated many of our economies.

8. The crisis resulted in both economic and social costs which we are still paying today. It was an example of bad globalisation. It demonstrated how a liberalised, laissez faire global economy could affect the lives of millions of people. If issues that arose out of the crisis are not addressed more seriously, I am afraid the revolt that has begun against globalisation that resulted in violent demonstrations that began in Seattle will grow bigger and bigger. The ragtag group of NGOs against the present form of globalisation have become more organised, militant and knowledgeable about the issues. Their growing opposition is partly a reflection of the bad aspects of globalisation which does not give the whole process a human face.

Ladies and gentlemen,

9. In light of all of this, we must examine the challenges facing our labour force and what strategic action we can take to ensure that they remain competitive and value added. Traditionally developing countries, such as many of us in the region, have become the destination for those who want to exploit our cheap labour. This was seen to be a win-win situation. There was job creation for our citizens and multinational producers were able to bring their costs down.

10. Hundreds of factories and plants sprouted in our suburbs. We gave these foreign manufacturers unprecedented incentives from tax holidays to export benefits. We believed that there would be technology transfer for our workers who would eventually be sufficiently skilled to provide the economy with indigenous expertise. Now, the situation is beginning to change. Labour costs in some of our countries have gone up relative to other countries. Malaysia, for instance, is beginning to lose our wage-based competitiveness. There are other countries in the region whose labour costs are comparatively lower.

11. We are starting to see some multinationals rationalising their international operations which means closing plants in countries that no longer offer waged based competitiveness. In light of this, economies that no longer offer relatively low labour costs must shift gears and formulate new strategies to ensure long term competitiveness. For Malaysia, the strategy that we have chosen is through transforming our largely production-based economy into a knowledge-based economy or k-economy.

12. Without migrating to a k-economy, we risk being trapped in the "uncompetitive gap" in which we are not cheap enough nor skilled enough to offer any sort of competitiveness factor. In other words, countries in this situation must offer more than just cheap labour. We must ensure that our work force moves up the value added chain by being more productive, efficient and innovative. If we study the world competitive yearbook's competitiveness ranking, many of us would rank highly in labour costs but not in the other areas of competitiveness such as productivity, corporate performance, management efficiency and corporate culture. If we are unable to create a workforce that is capable of attaining the competitiveness in these other areas, we will find that the benefits of globalisation will increasingly be elusive to us.

13. Concerning the relocation of investments from one country to another, I think we need to be careful about competing with each other about attracting FDI. We may be undermining each other's economy and the welfare of our workers in order to give foreign investors their profits. There was a time when all manufacturing was done in the developed countries. Their workers regularly demanded increases in their pay. To meet this demand the prices of the manufactured goods were increased yearly. We the developing countries had to sell more and more of our raw materials at ever lower prices in order to pay for the ever more expensive manufactured goods. We lost out as the time of trade continuously deteriorated.

14. Now we are the manufacturers but our workers are not only not getting increases in wages, they actually face the spectre of unemployment as investors shift from one low cost country to another with even lower cost, as we compete with each other. Even when we ourselves learn to manufacture we are faced with the problem of continuously decreasing prices of manufactured goods alongside the fall in the prices of our raw material. It seems almost that for the poorer countries, heads they win and tails we lose.

Ladies and gentlemen,

15. In facing these challenges we must focus on capacity building. Human capital is the most important factor that will determine the success of any transition towards a k-economy. Without improving the education, skills, productivity and innovation of our workforce, we will not be able to escape the "uncompetitive gap" once our labour is no longer relatively cheap. In this regard, this gathering has an important role to play in bringing together various approaches that have been applied across the region. There are however, strategies that can be used by all of our economies in order to ensure that we develop the necessary knowledge- based work force that is needed.

16. Firstly, we must be committed to improving education standards regionally. Currently, the average enrolment in secondary schools in Malaysia, Thailand, Philippines and Indonesia is 61% as compared to 96% in the United States, 100% in

Japan and 100% in South Korea. This means that the basic level of education for our work force is far lower than that of the developed countries including some of our dialogue partners. The lower standard of education translates into a less flexible and productive workforce. These workers will find learning new skills more difficult.

17. In many of our economies, the culture of life-long learning is also absent. If we want to create k-workers, we must realise that the accumulation of knowledge does not end. There are always new ways of doing things that we need to learn. This is especially true now when our workers will have to learn to utilise ICT in the production process. By promoting lifelong learning among our workers, we are also bringing about greater equality through increased opportunities and raising standards of living. This is crucial for many of us who are still confronted with development challenges.

18. Secondly, we need to emphasise training and retraining. Knowledge intensive industries demand a shift in human resource development strategy to one which promotes continuous training and retraining, both on and off the job. Again, if we look at the dearth of k-skills possessed by our workers we can appreciate the need for continuous upgrading of worker skills. Training must be provided at all levels both during employment and pre-employment. Many school leavers in our developing economies enter work without any form of post-school or pre-employment training. This stifles their job and occupational mobility and their wage earning capacity while also depriving the employers of higher productivity. By offering training at all levels, the workforce's skills will be continuously upgraded and they will remain flexible and capable of picking up new expertise. This is essential in a rapidly changing global economic environment in which the technological rate of obsolescence is high. Without workers familiar with learning new skills, the time taken to adopt new technology may impede overall economic growth.

19. Thirdly, in addition to measures designed to ensure a more competitive workforce, we must ensure that we minimise disruptions such as industrial actions. In the Malaysian context, we have practised a consultative relationship with our workers which has served us well in times of crisis. We were most fortunate that our workers fully supported the measures that were undertaken to protect our economy from the financial contagion in the region. We hope that this consultative relationship is strengthened to avoid any unnecessary unilateral action that can disrupt production and portray a negative image to the international financial community. For the government's part we have always sought to work closely with workers organisations, and only by gathering their support and cooperation will we be able to embark on measures designed to improve the productivity and competitiveness of our workers.

Ladies and gentlemen,

20. The downturn in the United States is having an adverse effect on many of our economies. I believe, without exception, the economies of our region will experience a slowdown this year. This demonstrates once again the interdependence of our economies. For those of us that are big exporters to the United States, we will see a reduction in exports and even corresponding retrenchments, especially in the export manufacturing sector.

21. In Malaysia, we have been preparing our economy so that we experience as little labour dislocation as possible. We have talked to employers and companies to ensure that retrenchments of our workers are done only when absolutely necessary and as a last resort. We have also asked them to compensate the workers fairly and to assist in finding them new employment. We have also set up various programmes for retraining our workers. This will enable them to learn new skills in order to move into different economic sectors. However, we must formulate a regional guideline on how we can handle external pressures to our labour markets. Most of labour forces are involved in sectors that export to other parts of the world. Therefore, any future downturn in the global economy will result in similar retrenchments. I hope that this meeting will be able to discuss the various measures taken by each member country with a view to formulating regional best practices in dealing with this matter.

Excellencies, ladies and gentlemen,

22. The Asean countries have shown the world, the developed world in particular, how developing countries can cooperate with each other for mutual benefit. While not working to hold ourselves up as the perfect model, we should not be too reticent about giving our opinions on globalisation and the challenges that it brings for our economies. I think we can contribute toward designing a global system that is more equitable in which our workers can benefit while the workers in other countries will not lose. I think we can contribute enormously to the shaping of a more rational world economic system in which our workers will gain ever more improvement of their lot.

23. However, what remains most important is that we take the right steps in developing workforces that are competitive, flexible and innovative. We do not want to be renowned as the region with cheap labour, but instead we should develop to fashion our region as one with productive, creative and knowledgeable workers who have created world-class corporations in various knowledge industries.

24. I hope your meeting will contribute to the understanding of the process of globalisation and by so doing help us shape it to benefit everyone including our workers.

Thank you.