

THE OPENING OF THE NINTH CONVENTION OF THE PERSATUAN EKONOMI MALAYSIA ON "STRATEGY FOR GROWTH: TOWARDS A MORE COMPETITIVE ECONOMY"

THE SHANGRI-LA HOTEL, KUALA LUMPUR, 17 NOVEMBER 1987

Datuk Dr. Mokhzani Abdul Rahim, President Persatuan Ekonomi Malaysia; Distinguished Guests; Ladies and Gentlemen, I am pleased to be here today to officiate at the opening of the Ninth Convention of the Persatuan Ekonomi Malaysia. This year's theme: "Strategy for Growth: Towards a More Competitive Economy" reflects a key objective of public policy - an objective foremost on the minds of both the Government and the private sector. I hope your deliberations over the next few days will bring forth new ideas to contribute positively to the Nation's efforts to revive the Malaysian economy.

2. Over the past year, many conferences, seminars, dialogues and panel discussions have been organised to extract ideas and views from across a wide cross-section of the population on what is needed to put the Malaysian economy back on track. In an increasingly unstable international trading environment, fresh ideas and new approaches have not been easy to come by. For a commodity- dependent country, like Malaysia, how should we respond when writers like Peter Drucker see no future for raw material producing countries because they have come "uncoupled" from the industrial economies? Likewise, since we are looking towards industrialisation to help solve our unemployment problem, the same message is repeated - namely, industrial production has also come "uncoupled" from employment, the argument being that the more competitive industries today are those that are technology and knowledge-driven, such as electronics, genetic engineering, pharmaceuticals and telecommunications. And, of course, the impact of recent events in the world's stock exchanges bear testimony to the sad observation that economic performance these days is becoming less dependent on underlying macro-economic fundamentals, and more on financial transactions based on rapid and massive capital movements, which are strongly linked to the vicissitudes of market sentiments.

3. An underlying message which is worth our while to consider is that structural world changes have overtaken us. It is urgent that Malaysians put their act together to adapt to these new demands and challenges.

Ladies and Gentlemen,

4. Today, we in Malaysia are beginning to see the benefits of the painful adjustment programme undertaken in earnest since 1983. We are now better off than we had been for some time. This year, real GDP growth will be modest. The Minister of Finance talks of 2% in 1987 and 4% next year. But, because our international terms of trade have improved, current incomes will increase faster. This year, national income should be up 6%, after two years of absolute declines in income: 8% in 1986 and 3% in 1985. As a result, consumer and corporate demand can be expected to perform better. For the first time since 1979, we are seeing a turnaround in the current account of the balance of payments to a

surplus position. The external payments position will continue to look good in the immediate years to come. Our reserves have reached a level where we can afford to pre-pay some of our external debt. For the first time, too, the size of the Federal Government' s external debt will shrink. Only the budget deficit remains and with the Government' s steadfast commitment to trim spending and winddown the role of the public sector, there is every possibility that the Government will be able to achieve its objective of balancing its current Budget by 1989.

5. However, against such achievements, several problems remain. For one thing, the economic recovery thus far is too narrowly based. Indeed, it is still far too dependent on higher commodity prices and short-term expansion of the export sector. The domestic sector has yet to respond adequately to the stimulus. Although recent reports of company performance indicate that many companies listed on the Kuala Lumpur Stock Exchange are in the black, and in some cases, earning good profits, we have yet to witness a flood of spending on capital outlays.

6. Despite the pick-up in domestic private investment, unemployment is expected to reach 9.1% of the labour force, involving some 570,000 persons in 1987. This has prompted some to suggest that the Government should reflate the economy with large doses of counter-cyclical expansionary spending. In other words, take the easy way out. Our experience in the 1980s have shown that this is not the proper approach. The Government cannot spend more without taxing more. We cannot spend what we cannot afford. Borrowing unduly raises the public debt, the servicing of which will divert large sums from our current account, thus penalising future generations with higher taxes, not to mention the adverse impact on the Government' s credit worthiness, the economic distortions that are likely to arise over the longer term, and equally important, the "crowding-out" effects on private initiative.

7. Yet it is clear that unless money is expanded on some local activities, jobs will not be created and domestic economic activities will not be stimulated. It is for this reason that the Government proposes to privatise several major civil projects which can lead to substantial construction activities. This way jobs will be created and there will be a market for a lot of local products without involving the Government in massive spending and increased debt servicing.

8. The Budget strategies outlined for 1988 and beyond are, I believe, the right ones. They represent a fine balance of what the Government should do, given its reduced resources, and what we want the private sector to do. We have already ensured that businessmen and entrepreneurs have ready access to adequate funds, at reasonable cost. With our limited resources, priority will be given to fighting poverty and improving the living conditions of the poor; to investing in basic economic infrastructure; to ensuring that the Government plays its part in assisting - as a matter of priority - the private sector to grow and thereby, hasten the process of economic recovery. We also want to see to it that our social services are adequate and our national defences strengthened.

9. To succeed, there is no doubt that we need a dynamic and competitive private sector. But, that is only a necessary condition, not a sufficient condition. We also need an expanding and stable world economy. We must recognise the reality that our success will depend, just as much on our own efforts as on the successful efforts to bring about growing and open markets in the industrial world. That responsibility lies mainly with the United States and its principal trading partners, notably Japan and West Germany.

10. It has become a cliché that money talks. Over the past year, the talks have been so noisy as to be deafening. First the US dollar and interest rates rocketed up. Then there was a screeching fall. Then, the cries of "foul play" on Wall Street following the Ivan Boesky scandals, not to mention the "Big Bang" in London. More recently, we all heard the stock markets, led by Wall Street, ripping through the roof. This was followed by a screaming dive back through the roof and down to somewhere below the basement. All this while real business i.e. the production and marketing of goods and service was all but forgotten. Good performance and dividends are irrelevant when much more can be made selling pieces of paper with imaginary values. The modern commodities are money and shares, the purchase and sales of which far exceed real world trade in goods and services over any time period. When currencies become goods and are so traded, something must be fundamentally wrong.

11. What is fundamentally wrong is that technology has outstripped human capabilities to make use or take advantage of these technologies without disturbing human environment. Technologically the Strategic Defense Initiative is entirely possible. But to attain this possibility all the resources of a state has to be diverted to these weapons which ideally should not be used if they are to serve their purpose. And so we have the fantastic deficits in the US which without doubt distorts the total industrial development not only of the US but also the whole world. Russia whose people are poor will now divert their resources to keep up with the US. With so much money diverted to the endless search and manufacture of increasingly more effective and more costly weapons, all other areas must be starved of money.

12. If there is going to be recovery, the mad race to design and manufacture endlessly improved arms using ever more sophisticated and ever more costly technology must stop. Money must go back to the production of useful and cheaper necessities or even luxury items, the production of which will consume raw materials, create jobs and spread wealth throughout the world. Sanity must return to the business world and real profits must replace non-taxable capital gains as the attraction of the stock markets. 'Big Bangs', computers, automatic purchases and sales of shares need to be re-studied so that wild swings in stock market prices will be replaced by more sensible ups and downs.

13. The linkages in the world financial and stock markets cannot be broken. Since small poor countries cannot influence the market or the world's economy much, the major economic powers must accept the responsibility of restoring the world's economy. The confidence of the world has been badly undermined by

recent events but cool heads and strong political leadership among the big powers can still restore equilibrium.

Ladies and Gentlemen,

14. On our part, we must not lose hope. We have undertaken the necessary adjustments and emerged leaner, but stronger and hopefully, wiser. What is important is whether our economic strategies are beginning to pay off in terms of the more basic goals of growth and stability. In a number of areas, developments in the past 6 months have been strongly encouraging in that respect:

First, the evidence by now is clear that our balance of payments has turned the vital corner, despite sluggish real growth. This year' s current surplus is significant. We can look forward to another in 1988. Second, this year' s Budget deficit is smaller. Next year' s should be much smaller still. We are determined to make real progress here. Third, we have had little inflation and the chances are good that we will be able to manage this aspect of our lives within prudent bounds next year. Fourth, the signs are getting clearer that private domestic consumption is rising, slowly but surely. The recent fall in stock market values will no doubt make consumption spending more cautious. But, export growth remains firm - the income effects of this continuing trend is surely positive. Fifth, manufacturing activity has picked up decisively and the prospects for further business investment, especially foreign direct investment, is improving. The signals we are getting from foreign investors are particularly encouraging. I wish I can say the same for domestic re-investment and new investment. Sixth, capital inflows have continued to be strong. So much so that Bank Negara' s reserves are up significantly, despite debt prepayments by both the Government and private sector enterprises. What is particularly encouraging has been the persistence of these capital inflows in the wake of the October 19th Wall Street "collapse". Finally, the ringgit continues to remain stable in the face of low interest rates. Of equal importance, of course, has been continuing evidence of restraint and discipline on costs and wages in much of Malaysian business, especially the Government and the banking sector.

15. While all this is well and good, risks and problems are also apparent. Indeed, all is not safely and securely home. As I mentioned earlier, unemployment is too uncomfortably high. Outside selective parts of the manufacturing industry and to a lesser extent agriculture, the statistics suggest continuing sluggishness and poor productivity growth. We will need to do much better.

Ladies and Gentlemen,

16. In terms of strategy, we should persevere with our present package of policies aimed at nurturing a more competitive order so that the economy can generate growth on its own momentum. A more competitive order will help revive private sector activity. Although private business activity is expected to surpass its lacklustre performance of recent years, I cannot but repeat how crucial it is for the private sector to become the dynamic growth centre for the rest of this decade. The decline in private investment, other than in oil and gas, is disturbing.

Between 1981 and 1986, available statistics show that non-oil and gas private investment outlays have been declining at an average annual rate of nearly 2%. The contribution of private investment to GDP growth was negative over the same period. In the case of the public sector, its contribution to growth had been a positive 2 percentage points. This sluggishness in private sector investment must be reversed. Without a healthy growth in investment, GDP growth will not be sustainable. That is why we must do all we can to encourage private investment.

17. So far, the Government' s strategy for the private sector had been directed mainly at the provision of adequate incentives, including reducing the rates on corporate tax, electricity and communication charges, liberalising the guidelines governing equity participation in export-oriented industries, and deregulation to reduce cumbersome rules and procedures. If the economy is allowed simply to grow on its own momentum over the medium term, depending mainly on the fortunes of the international trading environment, real GDP growth is unlikely to exceed 3% per annum by 1990. However, if the private sector puts its act together to take full advantage of the Government' s incentives on investment and its privatisation programme, real GDP growth could realistically gain by an additional 1-2 percentage points. The present situation calls for daring, innovative and imaginative entrepreneurs. The lessons of history tell us that the take-off to sustained growth in any society requires the existence, initiative and reasonable skill of some group which is prepared to take risks and venture into new enterprises. Indeed, the real remedies lie deep in human attitudes and behaviour. Granted, it cannot change overnight. But, as the current values and behaviour must have developed from a more primitive beginning, so can the process of value changes take off from the present ones. It remains for us to cultivate the right kind of changes.

Ladies and Gentlemen,

18. Our nation is blessed with abundant natural resources, which need either to be exploited raw or with varying degree of added value in order to yield handsome returns. But I note that businessmen have been turning more and more to the financial markets with its promise of quick and substantial returns. A financial market is only real and viable if it is backed by sound economic activity with growth of assets and dividends. Capital gains without real economic growth is like a growing skyscraper without foundation. Sooner or later it is going to crash down. As you are aware it has crashed on a worldwide unprecedented scale. Instead of waiting for the market to recover, businessmen should go back to doing business, to producing goods and services and marketing them at a profit. The stock market should be used to raise capital for these enterprises.

19. If you must speculate, do so on a reasonable scale. There must be some relationship between prices and the performance of the enterprises. Computers should not totally displace humans in the buying and selling of shares. The old study and probe into the basic foundations of the companies must return as the basis for decisions to sell or buy. If there must be speculation, it should be sane

and healthy.

20. I am told that wages and salaries in selected industries within the manufacturing sector had risen on an average by about 10% in the period 1981-85. However, for the same period, productivity in these manufacturing concerns only rose at an estimated 3.5% annually, resulting in a 6.5% increase a year in our unit cost. Workers wages in this country are relatively higher than among our major competitors in the region. Since it is neither wise nor possible for wages to be reduced in order to bring down unit cost, the only thing that can be done is to increase productivity.

21. While hard conscientious work by workers can definitely improve productivity, managers must also look into the system of working and the use of aids in order to improve productivity. Unnecessary and careless spending is another cause of high unit cost. In other words while workers play a role in determining the level of productivity, managers and other executives cannot be completely excused for poor productivity in any enterprise. It is imperative that Malaysian managers look critically at themselves as much as at their workers.

Ladies and Gentlemen,

22. With these words, I wish you success in your deliberations and I now have much pleasure in declaring open the Ninth Convention of the Persatuan Ekonomi Malaysia.