

## **THE ASIA SOCIETY MEETING (THE MALAYSIAN ECONOMY-THE WAY FORWARD)**

NEW YORK CITY, 25 SEPTEMBER 1991

Distinguished Guests; Ladies and Gentlemen,

I am very glad of this opportunity to address the distinguished members of the Asia Society in New York especially as it enables me to explain a little about the complexity of Malaysia with its multiethnic society to an audience of Americans with a wide knowledge of Asia and the world.

2. For more than a decade now Malaysia has opted to concentrate on economic development and to reduce politicking to the minimum. This is not easy of course, considering the multiracial, multicultural, multilingual and multireligious character of the Malaysians. But if you compare the history of independent Malaysia with that of other multiracial countries, including those in present-day Europe, our record in reducing politicking and developing our economy seems to testify to our success in doing both at the same time.

3. Except for the race riots in 1969, race relations in Malaysia have been fairly good. As to the economy, we have done fairly well with growth averaging 6.8% in the last two decades. The four Asian tigers grew faster but then they have no racial or religious problems; their society being more homogeneous and more compact.

4. In Malaysia, we have always been very conscious of the need for political stability in order to achieve economic growth. And so, right from the beginning the different races set out to formulate a system of working together.

5. An alliance of ethnic-based political parties resolved the question of the character of independent Malaya before they presented their demand for independence in 1955 to the British. That Alliance of Malay, Chinese and Indian parties then went on to rule Malaya and Malaysia after independence was achieved in 1957.

6. For a time the euphoria of independence and the sharing of political power was sufficient to maintain political stability. But economic disparities were left unattended. The Alliance Government felt that the status quo with regard to the places for the Malays, Chinese and Indians in the economic spectrum should remain. This meant that the Malays should remain peasants with a few serving in the Government; the Chinese should do all the trading and other economic activities and the Indians should tap rubber while a few work as professionals.

7. Naturally economic disparities not only continued but were amplified. Within a decade the rumblings of discontent among the Malays became audible and ominous. Racial tension increased as the races confront each other in the political arena. In 1969 race riots broke out.

8. It should be noted that the Government was not entirely unconcerned about the welfare of the Malays in the rural areas. A comprehensive programme of

rural development succeeded in bringing modern amenities to these areas. But the fact remained that the Malays felt the greatest portion of the wealth of the nation was beyond their reach and that the Chinese were the main beneficiaries of post-independence economic growth.

9. Following the race riots of 1969 the Government therefore decided to address the disparities and integrate the races into the economic sphere. Thus was formulated the New Economic Policy (NEP) with the twin objectives of eradicating poverty irrespective of race and the restructuring of society in order to remove the identification of race with economic function.

10. Malaysia suffered severe criticisms from many quarters over the New Economic Policy. The political leadership was labelled as racist and discriminatory. That the previous impartiality in the treatment of the different races had resulted in enhanced disparities and the race riots in 1969 were ignored. It would seem that equal treatment, even if it resulted in increased inequality, was more important than real equality between citizens. Yet society had long acknowledged the justice of taxing the rich in order to support the poor. The only difference is that in Malaysia, the poor happens also to be the indigenous people as a community. That the Government also subscribe to poverty eradication, irrespective of race, was dismissed as mere window-dressing and not worthy of consideration.

11. The multiracial partners in the Government stood fast together despite attacks at home and abroad and continued to implement the NEP. It was the most daring experiment in socio-economic engineering ever undertaken by a developing country. There was no precedence to fall back on. Mistakes were made, but with some innovations, startling results were achieved.

12. While all these socio-economic programmes were being carried out, the Government had also to ensure that economic growth would not be retarded. Indeed the NEP could not have been implemented if there was no growth, for it was premised on the expansion of the economic cake and not on redistribution of existing wealth. With the world sliding into recession the task for the Government was doubly difficult.

Ladies and gentlemen,

13. When I took over as Prime Minister in 1981, the New Economic Policy, was at its mid-point but had achieved only 1/3 of its target. With the world in recession, it was feared that in the next 10 years the achievement would be even less. Clearly new approaches were needed not only to achieve the NEP target, but also to accelerate growth.

14. The dynamic economies of the Far East were chosen as models and the Government enunciated the "Look East Policy" and the "Malaysia Incorporated" concept. The Look East Policy did not mean buying from Eastern countries and giving all contracts to them as the detractors of the Government, both local and foreign alleged. Looking East meant learning the work ethics, management

styles and organisations of those countries in the East which were achieving dynamic growth. These countries had developed fast because they switched from an agrarian economy to an industrialised economy. If Malaysia was to grow fast it must industrialise. Again it had no choice. The agricultural sector cannot support a rapidly growing population which grew from 10.7 million in 1970 to 18.3 million in 1990. Only manufacturing industries can. Since the domestic market is small, import-substitute manufacturing would contribute little to growth. To cope, the economic growth must be export-led.

15. New forays into industry were launched. The most criticised was the venture into heavy industries, such as steel-making and fabrication and automobile manufacturing. Many predicted failure with glee. Indeed in the initial years the projects seemed to fail. But then, which company in the steel and car manufacturing industry made money from day one? It so happened that almost as soon as the mills began operation Malaysia experienced its worst recession following the worldwide recession in 1984-85. Today with these enterprises and a host of others started by the Heavy Industries Corporation showing handsome profits, the critics are less vocal though they remain sceptical.

16. The deep recession in 1985 also called for new strategies in order to recover. New incentives were devised in order to attract foreign investments as well as local ventures. A new Ministry of Tourism was allocated a large budget to promote tourism. A Visit Malaysia Year launched in 1990 succeeded in increasing foreign visitors by 60 per cent to over 7 million.

17. In the meantime the Malaysia Incorporated concept helped develop rapport between the Government and the private sector. This is absolutely essential if the private sector is to be the engine of growth as decided by the Government. Civil servants were retrained in order to cope with new attitudes and strategies that were formulated by the elected Government.

18. In the course of implementing the NEP, the Government had moved aggressively into business. Although some were successful, a great many were failures. Fortunately the privatisation policy enunciated in 1981 had begun to show results. Accordingly, the Government companies whether profitable or otherwise were sold off along with various Government agencies and services.

19. Privatisation was successful and profitable both for the Government and the private sector. An example is the Telecommunication Department. When it was a Government department it needed continuous Government financial grants. Revenue from the service was minimal. As a private company Telekom Malaysia relieved the Government from the annual grants, paid the Government for the assets taken over, made considerable profits which the Government gets as dividends for its majority share, and provide better service. Many other services have been privatised and a list of over 200 others has been earmarked for privatisation.

Ladies and gentlemen,

20. At this point it is relevant to state that Malaysia had clearly deviated from the development model promoted by the countries of the North through the World Bank and the IMF when the colonies of the west gained independence. In economic terms, the model stipulated that the newly independent country should extract and export raw materials and commodities to the North and with the earnings to pay for imported consumer goods, machinery and technology, also from the North. In agriculture, the model called for the opening up of forests to plant crops using chemicals and fertilizers from the North. The model led to overproduction and lower prices for commodities and deterioration in the terms of trade for the developing countries.

21. We are today looking at the ruins of this model in many parts of the world, especially in Africa. The severe adjustment programmes demanded by the World Bank when these countries failed because of its policy, caused further hardships on societies and even governments. Cuts in social expenditures such as health care, water supply and education have led to more poverty and health problems. A recent statement by UNICEF has linked the outbreak of cholera in some Latin American countries to policies imposed by the World Bank and the IMF.

22. In Malaysia's case, it was providential that we did not adopt, in toto, the model above. Ours was a non-doctrinaire pragmatic approach which was not averse to learning and accepting methods from all sources, irrespective. We did not nationalise foreign owned assets but we made sure that we acquired controlling shares through normal market mechanisms. We practised consistently an open-market trading system but the Government was always ready to intervene when necessary. While we allow full interplay of market forces in the private sector, the public sector remains a responsible partner monitoring the situation.

Ladies and gentlemen,

23. On the 1st of July this year, Malaysia launched its Second Outline Perspective Plan and the National Development Policy (NDP) covering a span of 10 years from 1991 to the year 2000. At the same time, we announced a framework vision to make Malaysia a developed country by the year 2020. Our concept of being developed does not simply focus on per capita income but on the quality of life and morality as well. The hedonistic materialism of present models is not for us. We hope the rest of the world will give us this freedom of choice and not harass us into conformity in the name of freedom.

24. In formulating the NDP, the Malaysian Government also took into account a number of key factors. First, since the NEP was a qualified success we will continue with its objectives. But we will concentrate on improving the method of implementation to ensure that quality is not sacrificed in favour of quantitative achievement.

25. Secondly, the NDP must involve the participation of all communities. In implementing the NDP there will be a full mobilisation of all resources and

utilisation of all the assets and skills of Malaysia's multiracial society.

26. An important policy shift is to reduce Government's direct and massive role in opening up new lands. The Federal Land Development Authority or FELDA will be given a diminished role as the landless now tend to migrate to urban centres and work in factories. Should new palm oil estates need to be opened or expanded, the private sector will initiate and run them. They are after all more efficient than the Government.

27. The third factor concerns the external environment. The already shrinking international capital market is coming under even greater strain as the central economies of Eastern Europe and the new Soviet Republics move towards market economy. Because of the uncertainty in the international capital market, the NDP will generate capital from domestic sources through efficient mobilisation of domestic savings.

28. The export market is likely to get tougher, with a threat of increased protectionism and regulated world trade. This trend will have to be countered by seeking more meaningful support for keeping trade free. Towards this end, Malaysia has proposed the formation of the East Asia Economic Group or EAEG as a forum to garner support for free trade at international trade negotiations.

29. In order to achieve the targets of the NDP and the attainment of developed nation status by 2020, an average growth of 7 per cent per annum is required. Such a rate of growth will result in doubling the output of goods and services in real terms every 10 years and would achieve a per capita income of \$17,000 by the year 2020.

30. This is arguably an ambitious projection but it is not unachievable. In the 1970's, the Malaysian economy grew by an annual average of 7.8 per cent and in the 1980's because of the recession, by an annual average of 5.9 per cent. During the 20-year period of the NEP beginning 1970, the year the New Economic Policy was launched, the growth was therefore 6.8 per cent per annum. What is needed is an additional growth of 0.2 per cent. Considering that in 1989 the rate was 9.4 per cent and 10 per cent in 1990, the chances for a 7 per cent average growth are good.

Ladies and gentlemen,

31. The pursuit of the objectives of the NDP will entail an accelerated industrialisation programme. The manufacturing sector will spearhead development in the next decade. This sector is projected to grow by 10.5 per cent per annum resulting in the share of the sector in GDP increasing from 27 per cent in 1990 to about 37 per cent in the year 2000. Last year, the manufacturing sector enjoyed a growth of 18.2 per cent. The growth in this sector will have a significant impact on the composition of exports, with manufactured goods accounting for about 80 per cent of total exports by the year 2000.

32. Labour shortages being experienced presently will require that the nation

move into higher technology and more capital intensive industries. At the same time, there will be a need to diversify and broaden the nation' s industrial base through new growth industries including metal fabrication and engineering, petrochemicals and transport equipment as well as non-metallic mineral, rubber and wood-based industries.

Ladies and gentlemen,

33. An important thrust in the NDP is the high priority given to the development of human resources. We are not thinking merely in terms of educational and skills training, but attitudinal training as well. A peasant mentality and value system is incompatible with progress towards an industrialised society. The people will need to change their values and work ethics if we are to achieve our ambition to become a developed nation. An active programme for training the people in the required ethics has been launched. This sounds very much like thought control or brainwashing. We know that left to themselves the people would probably adjust. But we do not have time to spare. Too many nations are ahead of us.

34. Economic development plans can never be implemented successfully in an environment of political instability. Considering Malaysia' s multiracial population, proneness to political instability is perhaps much greater than in homogenous societies. Brilliant foreign observers who have intelligently questioned Malaysian taxi drivers on their way from the airport to the city during their one-day visit have never failed to detect religious and racial tensions simmering under the surface. We have a great respect for taxi drivers and barbers, but our approach towards creating political stability does not depend exclusively on these people' s observation. We think we have the correct formula and we will stick to it with a fair deal of tenacity. I have already explained how deliberate power-sharing among our ethnic groups has resulted in political stability. We also believe that the equitable sharing of national wealth by all is also essential for that stability.

35. The above would be the way forward for the Malaysian economy. With hard work, tenacity and a singleness of purpose, we feel we can succeed. Even the challenges of the external environment can be overcome, at least partially. What we require is less of the all-knowing do-gooders and their drive to liberate us from ourselves. It must be accepted that there are many roads to heaven. The idea of a monolithic all-purpose model cannot be accepted by us. We hope people do not latch on to causes and crusades in order to justify political and economic recolonisation. Governments should also not hide behind the Non-Governmental Organisations. And nations should not feel unhappy if we retaliate in the same manner when they deliberately run us down. After all the so-called civilised nations have more skeletons in their cupboard and indeed are continuously adding to them, than we have in Malaysia. If you try to reproduce us in your image the world might be a boring place to live in.

36. The way forward for Malaysia may not meet with everyone' s approval but it is our choice. If there is such a thing as human rights, let those rights also extend to the choice of the people of Malaysia.

