

## **FIRST NATIONAL COMPETITIVENESS FORUM**

HILTON HOTEL, KUALA LUMPUR, 16 August 1993

This International Competitiveness Forum, held at this point in time, certainly serves to highlight the growing realisation among Malaysians of the importance of maintaining a strong and competitive economy. The goal for establishing a prosperous society with an economy that is fully competitive, dynamic, robust and resilient has in fact been included as one of the nine critical challenges of Vision 2020. Issues and questions on how to achieve and maintain competitiveness should thus be a major concern for all Malaysians.

2. Competitiveness is particularly critical in this era where economic prowess, and not military power, measures the strength and standing of nations. As a result, trade and industrial issues, export performance and trade balances have now become the major preoccupations of governments. Unfortunately this often results in calls for protective and restrictive policies to safeguard domestic producers from the full force of foreign competition.

3. Thus at the same time that markets and production processes are becoming increasingly more global, and economic liberalisation and private sector-led growth are the by-words of macro-economic management, we get conflicting demands for both liberalisation and protection, often by the same country, depending upon the competitive strength of their different industries.

4. As a small player in the global arena, our best hope lies simply in being more competitive, so that we are able to export our products even when faced with protectionist barriers.

5. Malaysia's success in attaining and sustaining the competitiveness of its exports have resulted in Malaysia being regarded as one of the industrialising countries deserving coverage in the World Competitiveness Report. Our current high ranking in that group, behind Singapore, Hong Kong and Taiwan and better than some of other dynamic countries of the East Asian region, no doubt is a source of pride to Malaysians. It is also a big challenge for we attract the attention not only of those who wish to take advantage of our competitiveness but also those who wish to reduce our competitiveness.

6. The great interest in this forum as shown by the high level of attendance by government decision makers, leading corporate personalities, leading businessmen, academicians and thinkers should convince even the casual observer that its past success has not made Malaysia complacent. In fact, we take the issue

of competitiveness very seriously. The presence of foreign participants, including those from renowned companies and institutions serves to highlight the fact that issues about Malaysian competitiveness are also of interest to our foreign trading and investment partners.

7. We hope to make being competitive a thoroughly Malaysian characteristic, embraced by all segments of society. With this goal in view we must also accept the need for openness, liberalism and free competition that goes along with being competitive.

8. Ever since attaining our independence, the Malaysian economy has sustained a high rate of economic growth. During the first Outline Perspective Plan period, our GDP grew at an average rate of 6.7 percent per annum, in real terms. As a result, our per capita income has increased steadily from US\$350 in 1970 to an estimated US\$3,000 by 1993. In purchasing power parity terms, it is even higher, being equivalent to around US\$7,110. Such growth has been fed by a steady increase in our rates of investments, so that, currently, our investment to GDP ratio, at around 35 per cent per annum, is among the highest in the world. In addition, our exports have grown steadily at an average rate of 18.5 per cent per annum.

9. In the process, we have also succeeded in transforming our economic production profile from one which is based on mining and agriculture to a more diversified base. In 1992 manufactured exports accounted for 69 per cent of total exports, compared to only 11.9 per cent in 1970. Our export markets have also been significantly diversified so that Malaysian goods now have a bigger range and are sold all over the world. Such significant export achievement obviously reflects a degree of competitiveness of our export items in the world market.

10. Our capacity to sustain a high rate of productive investment and to achieve steady export growth are in fact the two key strengths of our economy. The other contributing strengths are our stable socio-political and macro-economic environment.

11. Lest I be misunderstood, let me emphasise here that the *raison d'etre* for economic growth is simply to increase the welfare and standards of living of our citizens. High savings and competitiveness are just the means to sustain growth so as to contribute towards the well-being of our people.

12. Growth per se, will therefore be useless if it does not mean higher real incomes and standards of living and better quality of life for our people.

13. Herein lies a small dilemma, for increases in incomes will need to be realised by, among others, increases in wages and salaries. And increases in wages can result in higher cost of production and even inflation.

14. The answer to this dilemma is however quite straight forward. Increases in wages must be matched with higher productivity, either quantitatively or qualitatively or through moving into the higher value-added economic sectors and activities; and to continue to be competitive there. Only then can we support our ever increasing per capita income, higher wages and standards of living.

15. Clearly in order to remain competitive, continuous effort is required. Competitiveness is a dynamic process which has to be upgraded all the time. As the saying goes competitiveness involves running merely to remain in the same position. Any slowing down will result in losing competitiveness. To enhance competitiveness requires more than average speeds or forward progress.

16. Developments of the so-called international product life cycle is in fact simply a reflection of the dynamic realities affecting the competitiveness of nations. Thus countries in Western Europe, which used to be world leaders in iron and steel, ship-building and textiles are finding that they can no longer maintain their leadership position. They have to upgrade to more sophisticated industries, or go up market into specific high value-added niches in these industries. Currently countries like Japan and Korea which had displaced the Europeans are finding themselves increasingly less competitive in these areas and have to move on to newer pastures. We, who in the 1960s and 1970s were world leaders in rubber and tin, have had to give up these industries and move into manufacturing. No doubt if we had remained with tin and rubber, we would be a basket case today. Moving into manufacturing saved us. But now we have to be on the move again, to find niches which are suitable for us and to achieve competitiveness in these niches. And so the process goes on. Individuals can stop to rest and to glory in their achievement. Nations cannot. Even the great economies of the world cannot. Relax, and the tortoise behind will suddenly be ahead.

17. The challenge being posed is clear. To face this challenge Malaysia will have to continuously upgrade its industrial capabilities so as to be competitive in increasingly more sophisticated activities and industries.

18. The root cause of the current problems faced by many developed countries, such as deteriorating exports, excess

capacity, unemployment, low productivity and problems in their trade and current account, lies in their inability or unwillingness to accept the dynamic facts about the competitiveness of nations. As a result, instead of adjusting their industrial structure in line with their ever increasing wages and other costs, they prefer to isolate and protect. From champions of free trade they have now descended to being the proponents of 'managed trade'.

19. Even the least observant among us must notice that competitiveness needs the ability to manage and manage well certain prerequisites. These include, among others, the maintenance of a stable, political and social environment and the management of a macro-economic system which is conducive to economic growth. Additionally, there must be adequate and frequently upgraded institutions and physical and administrative infrastructures.

20. If these are in place, then the economic players, the entrepreneurs and investors and their supporting casts will feel assured enough to plan their enterprises for the longterm outlook needed for steady growth. They will be willing to invest in skills development and the kind of durable infrastructures needed for future expansions. Without these, quick gains and speculative and even illegal activities become more attractive. And this can only lead to regression in the long term and near-permanent incapacity to recover.

21. Continuous upgrading of institutional, physical and social infrastructures is important because these are factors which serve to facilitate business transactions, ensure predictability and create a familiar and comfortable environment for the conduct of business at acceptable costs.

22. At the risk of engendering complacency, I would like to point out that we have been strong in both areas, and merely need to sustain this achievement. The infrastructural bottlenecks suffered in early 1993, particularly with regard to power generation, should remind us of the need to relentlessly maintain our efforts even in those areas in which we can claim current strength.

23. Other factors such as the stability and competitiveness of our exchange rates, the rate of interests and inflation, financial policies and management and government/private sector relations are all contributory factors which are linked to our success so far.

24. When we talk of national competitiveness we must also talk about the efficiency of labour and capital.

25. Enhancement of the quality of our labour force via education, training and other forms of human resource development has been recognised as a critical factor in the Second Outline Perspective Plan. Improved quality of labour must result in greater productivity and capacity to upgrade industries and diversify them so as to facilitate entry into more advanced areas. This upgrading is needed because we want to improve the earnings and purchasing power of our workers and also because, as I have stated earlier, we want to continuously upgrade our manufacturing into higher value added and higher skilled activities without losing competitiveness.

26. How such upgrading can be achieved is a major problem facing us. The Government believes that this is a process which requires the efforts of both the public and private sectors in a true spirit of Malaysia Incorporated. The seeds of such cooperative efforts have already been sown, but much still needs to be done. One thing that is certain is that skills come with exposure and practice. If we do anything repeatedly we are bound to master the process, no matter how complex or sophisticated. We have already demonstrated our ability to acquire increasingly complex skills. This forum can deliberate on how effectively this natural law can be applied in order that we can move on into the most up-to-date technology.

27. Closely related to the issue of human resource development is that of the upgrading of our technological capabilities. In this regard, science and technology development and the enhancement of our research and development capabilities are critical factors. Likewise, firms need to be vigilant on the business and technological changes that emerge at the national, regional and international levels. This business and technology vigilance is embedded in the process of continuous search and consultation for new business opportunities through the strategic exploitation of technology.

28. Currently, with the exception of a few narrow sectors such as research in certain agricultural cash crops like rubber and palm oil, Malaysia is lamentably weak in research and the application of new technology. In this regard, although the broad aspirations are clear, Malaysia has still to decide on areas of focus as well as on implementation strategies. My view is that we should focus more on development and application than on original research. The returns on these are faster and better than from basic research. Additionally, the skills of basic or original research tend to develop naturally as the skills in application of existing technology advance. However this is just my view.

29. I would like to congratulate the Malaysian Business Council and the Ministry of International Trade and Industry, with the collaboration of ISIS Malaysia, for embarking on this timely initiative. I am sure this forum will come up with concrete ideas and suggestions.

30. With these remarks, I officially declare this forum open.