

**THE INTERNATIONAL CONFERENCE ON**

SHANGRI-LA HOTEL, KUALA LUMPUR, 15 November 1993

FROM HERE TO VISION 2020

Let me first extend a warm and cordial 'Selamat Datang' to all our foreign delegates attending this international conference. I hope you will use this opportunity to see our country, not only to observe at first hand the progress that has been achieved but also to enjoy the many sights and the hospitality that Malaysia has to offer.

2. I also wish to take this opportunity to congratulate the organisers of this conference, the International Herald Tribune, MIDA and ISIS Malaysia for hosting this conference which is both timely and appropriate.

3. 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 therefore apt that my address highlight the state of the Malaysian economy today and its promise for the future, particularly in the context of Vision 2020.

4. Vision 2020 is the crystallisation 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 an 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 utilise 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 characterised by low-inflation and low cost of production; and - an economy that is geared to the full discipline and rigours of market forces.

5. Without the above economic virtues, or a substantial portion of them, it would be impossible to attain the required growth of seven percent 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 percent of Japan's. By 2020, Malaysia's standard of living in PPP terms, at current values, will translate into material standards on par with or better than those enjoyed by the world's most prosperous nations.

6. The structure of production is expected to change with the share of manufacturing stabilising at about 40 percent by 2020. But more critically, although agriculture is expected to account for only six percent of GDP, value-added growth will ensure that it is capable of supplying the nation's food needs and enjoy a competitive export niche.

7. Another articulation of these objectives is labour productivity which is targeted to grow by 4.2 percent per annum. This is a critical target as it will ensure improving wages and per capita incomes without any serious negative effect on inflation.

8. 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 percent of world's GDP at US\$4.4 trillion while its share of world trade is also 21 percent. East Asia has a population size 31 percent of the world's 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.

9. You may well ask how Malaysia plans to achieve the target growth of seven percent per annum. Well, the key to sustaining growth at seven percent 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 percent 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 percent of GNP, will provide the necessary funding.

10. 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.

11. The Bumiputera community, still largely outside the mainstream of economic activity, is nevertheless a rich source of manpower, capital and business entrepreneurship. The experience of the past decade shows that, given the right training and opportunities, they can play a very significant role in the economic development process. They are also not without financial resources as they contribute towards numerous large savings and investment funds. Their full participation in the economy can, with proper guidance, enrich it considerably.

12. The structural transformation envisaged by Vision 2020 means also 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.

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

14. 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 liberalising and increasing world trade.

15. Perhaps the 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.

16. 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 industrialised 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.

17. The creation of a unified market in Western Europe, the democratisation of Eastern 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 globalise its trade.

18. However, our experience has shown that free trade is more honoured by words than by deeds. Rising protectionism, lack of policy co-ordination 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 blocks, such as NAFTA and the unified markets of EC, render free trade almost meaningless. For trading nations like Malaysia it means that growth and development will be retarded.

19. It is in order to reduce dependence on the traditional trading partners that Malaysia has embarked on an aggressive programme 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 organisations 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 and 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 certain developed countries.

20. 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 groupings. 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 maximise our capabilities.

21. The overall performance of the manufacturing sector is expected to remain strong in 1993 with an anticipated 12.5 percent expansion in output, higher than the 10.5 percent 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 percent from the 28.9 percent estimated in 1992.

22. Private investment in the manufacturing sector grew at an average rate of 50 percent per year between 1987 and 1990. This was as a result of several measures adopted by the Government whereby foreign equity guidelines were liberalised 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 privatisation, deregulation and liberalisation 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.

23. The favourable 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. There was therefore a pronounced change in the structure of the industrial base from labour-intensive and mere assembly-type operations to higher value-added and more capital-intensive

processes in the late 1980s. The ratio of employment per RM1 million approved investment showed a decline from 22 jobs in 1980 to four jobs in 1992. In contrast, the ratio of capital-intensity per project increased markedly from RM4.6 million in 1980 to RM31.8 million in 1992. In addition, the small and medium-scale industries were also encouraged to provide greater inter-industry linkages and to create a more balanced and integrated manufacturing sector.

24. 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. While bearing in mind the need to increase its sources of revenue, the government will continue its liberal tax policies in order to encourage private investment. Recognising the critical role of direct foreign investment in terms of new technology, creation of employment and industrial linkages in the domestic economy, the current liberal policies towards foreign investment will be maintained.

25. The Government will ensure that its machinery at all levels will work efficiently and closely with the private sector in the spirit of Malaysia Incorporated.

26. It is recognised 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. An aggressive and high profile in international trade affairs for Malaysia is therefore unavoidable.

27. As I said, the problems that Malaysia faces domestically are not insurmountable. Shortage of labour and low productivity, infrastructure shortcomings and inflation are being tackled and have been partially resolved. More critical and less easily resolved are the problems of sustaining the political and economic climate for extended periods in order to achieve Vision 2020.

28. Still, I am confident that the targets of Vision 2020 are attainable. This Government and its successors are committed to this Vision simply because the people as a whole have accepted it as a national aspiration and target. To ignore these aspirations is to court defeat.

29. Besides, the Government has gained much valuable experience in the management of the nation's economy. It has not all been plain sailing but it is a measure of the administrative ability of the Government machinery, that despite many economic and political crises, domestically and abroad, the country has managed to pull through and to grow steadily.

30. The expectation of continued growth is therefore not unreasonable considering that Malaysia grew on the average by approximately 6.7 percent in the first 20 years of its independence. All that is needed in order to achieve Vision 2020 is an additional 0.3 percent growth. It needs only a 7 percent annual growth over the next 26 years for Malaysia to become a fully developed nation. We are not an over-ambitious upstart. We are in fact very modest.

31. I would like to congratulate once again the International Herald Tribune, MIDA and ISIS Malaysia for organising this timely International Conference on trade and investment.