

Maintaining Economic And Political Stability Amidst Regional Turbulences & Global Uncertainties: The Malaysian Experience

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It is a pleasure for me to be here today to speak at this Investment Summit jointly organised by the Asian Strategy and Leadership Institute, Kuala Lumpur Stock Exchange and Salomon Smith Barney.

2. This Investment Summit provides an opportunity for Americans to get to know the real situation in Malaysia and to determine whether it is a place for you to invest or to trade with or indeed to visit as tourists.

3. What I would like to stress is that although Malaysia is a country with a Muslim majority and is a Muslim country, it is not a terrorist state as some like to make it out to be. We are a multi-racial, multi-religious, multi-cultural and multi-lingual country which is stable and peaceful. As you know this is not so easily achieved. But Malaysians of all religious faiths including the Muslim majority are tolerant and have a vested interest in maintaining the peace and stability of the country.

4. Yes, we do have an Islamic opposition and even a sprinkling of Muslim and non-Muslim extremists who would like to destabilise the country, outside the democratic processes. But Malaysia has been able to deal with them effectively through laws and methods which are now being adopted by many liberal countries. We are a democratic country, having held 10 elections in the last 44 years; elections which everyone including the opposition acknowledge are free. In fact two of the Malaysian states are presently ruled by a party opposed to the Central Government and there are numerous vociferous opposition members in our Parliament.

5. However, the people have consistently returned the party which liberated the country as the Central Government. This has enabled Malaysia to have consistency in its policies, including policies on foreign investments. Long before the acronym FDI became common, Malaysia had already invited foreign investors to help create jobs for our people. We were not interested in the taxes the Government could collect as long as our people get jobs. And get jobs they did so much so that for years now we have full employment and have almost two million foreign workers. Developing countries normally do not attract workers from other developing countries.

6. FDI is still coming in but worldwide there is a diminution in such investments. Besides, Malaysia now has to share FDI

with many countries, including China which were not in favour of FDI before. However, we have certain advantages including an easily trainable English speaking workforce and a government and people which are foreigner friendly. Our workforce is being constantly upgraded and today we are producing workers trained in the new technologies including I.T.

7. We are very independent minded and like to call a spade a spade. This does not endear us to some people. When the Malaysian currency was manipulated and devalued we correctly attributed it to the international financial system and manipulation by rogue currency traders. We therefore rejected the standard formula and devised our own solution to the problem. It worked. Today only the blind refuses to acknowledge that we have recovered better and faster than those who applied the recommended formula.

8. However, we are not immune to the performance of the world's economy, insulated though we try to be. The U.S. downturn and the Sept 11th attack affected us, and our performance in 2001 is much below our initial projection.

9. In the jittery world of post-Sept 11, we have sought to stimulate the economy through encouraging local investments, encouraging exports to non-traditional markets and putting more money in the hands of the people to increase consumption. As a result we believe we are better off than most countries affected by events in the U.S. As an example, despite general disenchantment with flying and Muslim countries, Malaysia actually achieved a growth of 24% in the number of tourist arrivals in 2001. We have continued to achieve substantial monthly trade surpluses and we did not have to borrow much to sustain our economy. Our foreign debt is still within acceptable limits.

10. The general antipathy towards Muslim countries has affected us of course. Still it is due to the wrong picture imaginatively created by certain sections of the press. It is stated that we are the launching pad for the attack on the WTC. Had we arrested some Arab tourists we could have stopped the attack. Well, we all know that for a year or more the terrorists were training in the U.S. They were not arrested because the authorities did not know who they were and what they planned to do. We did not know either.

11. The fact is that Malaysia is stable and terrorist-free and bear no ill will against foreigners including Americans.

12. The U.S. is the biggest investor in Malaysia, making up 20% of total foreign investments. It is also the biggest

trading partner, again topping 20% of Malaysia's total trade, which is quite big for a small country with a population of 24 million. We are, I believe, the 17th biggest trading nation in the world. But then trade value is actually almost 200% of our GDP size. Trade constitutes less than 10% of the GDP of Japan, great trading nation though it may be. U.S trade too is, in terms of percentage of GDP, not much bigger.

13. Our greatest wish is to see a prosperous world. We have a palpable stake in the economy of the U.S. for example. When the U.S. is prosperous our exports increase, our manufacturing increases, earnings increase and generally we prosper. But when the U.S. experience a downturn we suffer. We are suffering now. The only thing that can stop our economy from suffering is for the U.S. and all our trading partners to prosper. That is why we reject a Beggar-Thy-Neighbour frame of mind and favour instead a Prosper-Thy-Neighbour policy.

14. Malaysia as I said is a multi-racial, multi-religious country and multi-racial countries are among the most difficult to keep stable. But through affirmative action we have reduced the economic disparities which had aggravated the racial differences. Thus when the economic turmoil assailed our country there was no outbreak of race riots. The country was calm and stable, and we could engineer our recovery.

15. Now the region and indeed the whole world is in a state of turmoil. Can we remain stable? Multi-racial Malaysia has developed its own approach and remedy to racial tensions and violence. We have decided to share political power between the races and even tribes. The ruling coalition has 14 mainly racially-based parties. We have learnt to get along with each other, preferring to share our political power rather than favouring any one race or party. We believe that it is far better to have 10% of something than 100% of nothing. If anyone tries to grab everything the resulting instability would so damage the economy that the greedy grabber will find there is really nothing to grab.

16. This consciousness has made us totally committed to maintaining stability under whatever condition. The present regional turmoil, turbulence and global uncertainties have strengthened our desire to remain stable. We know it is far easier to concentrate on measures to overcome external turmoil if we are not distracted by internal turmoil.

17. We have developed a fairly sophisticated approach to crisis management. After the one and the only race riots in 1969 when the world predicted the end of Malaysia, Malaysian

leaders decided to downplay politics and to set up a kind of non-partisan national council to deal with the problems arising in the post riot period. This group was able to tap talents from outside the Government and to benefit from non-political views. The National Action Council as it was called succeeded in restoring law and order, a conducive economic and political environment and confidence in the future of the country. We recovered quickly and went on to unprecedented prosperity.

18. Quite naturally faced with the economic turmoil following the devaluation of our currency we fell back on our crisis management method of the past and set up a non-partisan National Economic Action Council (NEAC). A committee of the NEAC met every day and deliberated over the information and figures on the state of the economy, and proposed immediate remedial action.

19. The NEAC has not been disbanded. It was still busy tackling the problems of economic recovery due to the currency turmoil when the downturn in the U.S. economy and the Sept 11 attack took place. Naturally it took on the job of ensuring that Malaysia remains as insulated as possible from the turbulence in the region and the world.

20. With the power of the Cabinet behind it, there is no difficulty in ensuring that its advice and decisions are put into effect. By stimulating the domestic sector the immediate effects of outside turmoil was reduced.

21. Political and Economic stability are mutually dependent. Political stability leads to economic growth and economic growth help the achievement and maintenance of political stability. This interdependence is very obvious in Argentina. We are not certain which one comes first. But in Malaysia we concentrated on political stability in order to achieve economic well being.

22. One of the characteristics of the Malaysian Government is that it always has a big majority, two-thirds usually. Relieved of the fear of being overthrown the Government can act decisively and carry through its decisions long enough for the results to show.

23. Weak Governments can never be effective in solving crises, not even in giving the country an effective Government. Weak Governments are perpetually concerned with defending itself. As a result it cannot carry out any programme or its programme will come off half-cocked. And because of this the programmes and the Government must fail.

24. The programmes of strong Governments can fail too but because the Government would remain in power for a reasonable length of time, it can make the necessary corrections and adjustments in order to achieve the desired results. Countries where Governments are changed after short periods can never implement any plan or policy until the results are seen. In fact each one of the Governments will want to establish its mark by introducing new policies and plans and stopping the previous ones from being carried out. The result is that no plan ever gets implemented.

25. A bad plan skilfully and pragmatically managed is far better than a brilliant plan partially executed.

26. That is why in Malaysia one of our ways of dealing with both domestic and international problems is to give the Government enough power and enough time to plan and implement, making corrections along the way.

27. The fact that must be acknowledged is that Malaysia is a much more stable country politically and is able to ensure that even in times of turbulence and global uncertainties the economy remains reasonably strong and resilient. As soon as the environment improves Malaysia would be able to return to its growth path quite rapidly. This was shown when the exchange rate and capital flows were stabilised in Sept 1998. By Sept 1999 the stock market had rebounded strongly, Non-Performing Loans (NPLs) were reduced and businesses resuscitated. By the year 2000 despite scares about the Millennium Bug, an 8% plus growth was attained. But for the economic downturn in the U.S. we would have been able to achieve growths of 7% or more in 2001 and onwards.

28. The Government and the people have not become complacent, have not relaxed. Despite plans and tentative actions by extremists to mount violent attacks and to overthrow the Government, the vast majority of the people reject violence and refuse to be destabilised. There is no ambiguity about the Government's or the people's attitude towards terrorism. We condemn terrorism and those found to be involved were arrested and rehabilitated.

29. In the meantime various measures were taken to ensure that there is better corporate governance and transparency in business. Special agencies were set up to handle businesses which were grievously affected by the economic downturn and to inject new capital into the banks. These measures have yielded good results and Malaysian companies are healthier today than before capital controls and fixed exchange rates were instituted.

30. The current big shift is towards a knowledge and idea-based economy where the keys to wealth and job creation are the extent to which ideas, innovations, and technology are embedded in all the sectors of the economy. With this shift, we hope in the medium and long term the country can achieve faster the goals of higher standards of living and better quality of life. Other qualitative aspects include greater individual choice and freedom, more dignity and autonomy and wider citizen participation in public and social life.

31. Malaysia is not a country for cheap labour. With the other countries in the region opening up to FDI, Malaysia cannot offer cheap labour as an attraction.

32. Malaysia has therefore to rely on ever better quality of workforce. We are training and producing more knowledge workers to meet the demands of the I.T. sector. In addition we have launched the 15 km by 50 km Multimedia Super Corridor within which we have provided state-of-the-art infrastructure, new incentives, policies and legal environment conducive to the needs of the I.T. industry.

33. We had targeted for 500 I.T. companies to be cited in the Corridor by 2003 but by the end of 2001 we have already attracted 620 certificated I.T. companies among which over 60 are world class. With support and nurturing by a business friendly Government, the MSC is set to become a major I.T. industry centre in the region if not in the world.

34. But faced with the uncertainties in the world economy and the greater competition from our neighbours, faced also with the great advances in technology, we have decided to resuscitate the traditional areas of growth. We are giving special attention to the services sector and also the agricultural sector. Eight years ago all the Malaysian ports put together handled about 1 million TEUs. Today the two biggest ports alone handled about 6 million TEU.

35. New airports, expressways and power plants have made their contributions directly and indirectly to growth. Substantial investments in tourist promotion and products have yielded good results. Relatively low cost of manufacturing have made us a centre for fabrication of steel, aluminium and composite materials.

36. We believe we can recover this year with a reasonable rate of growth. Politically we are stable and we are not as badly off economically as those countries which received aid and advice from international agencies. Foreigners are welcome to share our very positive environment.

