

JEDDAH ECONOMIC FORUM 2004

JEDDAH, KINGDOM OF SAUDI ARABIA 18 JANUARY 2004

“A Recipe from Malaysia for Growth: Vision 2020”

I don't know whether Malaysia has a special recipe for growth, but we do have a great ambition to become a developed country by the year 2020 and to work very hard to achieve this ambition. It is not going to fall into our laps and we cannot just bungle our way through either, hoping that things would turn out right. Still, no matter how carefully we plan things may not turn out the way we expect. There will be unforeseen obstacles. That is Allah's will. But we are also endowed by Allah with the capacity to think, to act and to react in order to overcome the obstacles in our path. We do not just say it is preordained and there is nothing we can do about it. That is not what the Quran teaches us. What happens is preordained but the success or failure of our attempts to counter the misfortunes which assails us is also preordained. Had the Prophet done nothing to overcome the adversities he faced, Islam would not be our faith now. But we know of the many things he did to enable him to spread his message. The Prophet is the beloved of Allah yet he had to face and overcome obstacles. Can we expect Allah to remove obstacles for us when we do nothing for ourselves?

2. I am not trying to preach, but the creed and faith one holds is important to the success or failure of one's endeavour.

3. Very early after independence in 1957 Malaysia had a high rate of poverty and unemployment in our rapidly growing population. Rubber estates and tin mines could provide only a limited number of jobs. Unless we could create employment for our people, independence would become meaningless and social problems would plague the nation. Looking around we decided that only the manufacturing industry could create enough jobs for our people.

4. Not having the manufacturing know how, capital and knowledge of the market, we had to turn to foreign investments. For most newly independent countries, the trend at that time was to nationalise foreign companies. We were not sure we could manage them if we took over. Besides doing that would deter foreign investors from coming in. Our decision to invite investors was among the first thing we did which was at that time unconventional, unorthodox. We had decided to do things our own way.

5. Bringing in foreigners, especially Europeans exposed us to the danger of their domination. We know very well what happened to the Banana Republics of Central America. But we set certain conditions, which would ensure this would not happen. Yet, we were able to formulate incentives such as tax exemption and other perks as well as create a business friendly atmosphere, which taken together were attractive enough. In addition, wages in Malaysia were very low compared to wages in the industrialized countries. Our workers were easily trainable, and they understand the importance of industrial peace for investments and job creation. To provide the right kind of workers, the Government regularly allocate at least 20 percent of the National Budget for education and training. Although Malay is the national language English was designated as a second language because the workers had to take instructions from foreign managers and supervisors who do not understand the Malay language. Besides English

is the language of knowledge and learning now, as Arabic was the language of knowledge during the great days of the Islamic civilisation.

6. One of the attractions of Malaysia for foreign investors was lower cost, particularly lower wages. Lower wages are often associated with low standards of living.

7. In the late seventies the poverty rate in Malaysia was 57 percent. But today it is less than 5 percent as demands for workers for the manufacturing industries forced wages to rise. Presently Malaysia's wages are significantly higher than in the neighbouring countries and in China. But obviously if the wages become too high then industries would leave Malaysia for the low wage countries. That would cause unemployment and stifle development.

8. This poses a dilemma for the Government. We want our people to have increasingly higher standards of living through better income, but higher wages might actually result in unemployment and poverty.

9. Malaysia's strategy is to keep the cost of living low, which results in higher purchasing power even though wages are far below those of developed countries.

10. Although price control is a war-time method of controlling runaway inflation due to supply shortages, Malaysia has continued to control the prices of essential goods even during peace time. Profiteering is severely curbed. The result is a very low rate of inflation, lower than the increases in the average income. Malaysians are thus able to afford a much higher standard of living despite their seemingly low income.

11. The exchange rate of the Malaysian Ringgit to the US Dollar is now 3.8 to 1. It used to be 2.5 to 1 before the financial crisis. But the purchasing power of the Malaysian Ringgit in Malaysia is still roughly equal to 1USD in the US. That is because goods and services in Malaysia are about 1/3 the cost of those in the US. A low income in Malaysia does not mean a low standard of living because the cost of living is low. It is only when purchasing imported goods or travelling in developed countries that Malaysians feel the effect of their low income. But most of the necessities of life are produced in Malaysia or imported from low cost countries. So the low income does not result in low purchasing power.

12. The Ringgit, the Malaysian currency is a strong currency. It is used in all transactions within the country. Unlike many other developing countries, foreign currency such as the US Dollar is not used domestically. The Government guarantees that if there is a need for foreign currency to pay for imports, the Malaysian Ringgit can be changed for the foreign currency needed. The US dollar can be bought from the banks at 3.8 to 1 USD, at any time. The rate is fixed and foreign money is always available. Foreign currency earnings must be deposited in the Central Bank. Government reserves of foreign currencies can pay for more than 5 months of retained imports, much more than the usual 3 months requirement.

13. Low inflation is very important for economic development. In a free market the tendency of the traders is to increase prices without justification. When prices go up wage earners invariably demand for higher pay. To cater to this and maintain profits the prices of goods and services have to be increased. A continuous wage/price spiral will push inflation to very high levels. Effectively the local currency will depreciate. Very quickly a low cost country can become a high cost country that has no competitive

advantage. There will be no investments to help progress the development of the country.

14. Controlling inflation is therefore a major task for the government. Although the market is free, there must be some government control in order to prevent inflation. By controlling the prices of essential goods and monitoring the movement of prices in the market Malaysia is able to reduce inflation. The competitiveness of the country is thus maintained but the standard of living is improved because greater skill and productivity results in better wages and incomes.

15. Like all recipe a whole lot of ingredients have to go into the production of the final results. In the development of a country foreign investments and industrialisation alone are not enough. Nor will low inflation suffice. Malaysia is a multi racial country and the races are also divided by religion, language and culture. This is an explosive mixture. But very early during the struggle for independence, the Malay Muslim majority decided on a formula of power sharing with the Chinese and Indian minorities who together make up 40 percent of the population. A Constitutional Monarchy with Parliamentary Democracy was adopted.

16. Theoretically, the Malay Muslims could rule the country all by themselves. But this would result in racial tensions and political instability. In such a situation the country's economy could not be developed. It is better to have a share of a growing economic cake than to have all (100%) of the cake that could not grow, could even shrink. And so, the Malays chose to share political power with the Chinese and the Indians and other tribal groups so that the government would have the support of a big majority of the multi ethnic citizens. For most of the time the electorate gave a two-thirds majority to the government which enabled it to concentrate on economic development without fear of losing political power. A weak government would always be worried about losing to the opposition and would have to concentrate on the politics of survival and not economic development. In this power-sharing strategy, as in other things, Malaysia's approach was unorthodox.

17. The Pacific War had destroyed the economies of all the East Asian Countries. But we observe that very quickly Japan recovered, followed by South Korea and Taiwan. Their recovery was such that they could catch up with the developed victorious countries. Malaysia decided to learn economic development from these countries, while still looking at the European models. And so, a Look East Policy was adopted. From Japan and the others, Malaysia learnt that the key to economic development is work ethics which include among others workplace discipline. Time in particular must be respected by all – the government, the private sector and the workers.

18. Another lesson from Japan and South Korea is the close cooperation between the Government and the private sector. This was frowned upon by the West but we know how closely Western Governments collaborate with selected companies. Since corporate tax depends on the profits made by the business enterprises, it pays for Government to help the private sector to make as much profit as morally permissible. Bureaucratic delays were accordingly minimised and policies and laws amended so as to facilitate business. A continuous dialogue is carried out between the Government, the business community and the workers representatives. From the feedbacks the Government is able to take corrective measures.

19. Planning is highly developed in Malaysia. We have the usual annual plan through the yearly budget but in addition we have 5 year development plans and long term perspective plan of up to 30 years. Vision 2020 is a 30 year plan which not only set out the target but also the strategies and actions that have to be taken to achieve it. Vision 2020 is of course about Malaysia becoming a developed country in its own mould by 2020, i.e. becoming as rich and as industrialised as the developed industrialised countries without losing our moral character, culture and religions faiths.

20. The minds of the bureaucrats and the people have to be prepared for this. A hands-on policy for Ministers and civil servants ensures that they are directly involved in the supervision and implementation of the plan and the weekly cabinet directives. A unit called the Implementation Coordination Unit also oversees the plan and projects and submits regular reports to the Cabinet on the progress. Obstacles to the implementation are removed by the senior officers and Ministers and sometimes by the Cabinet which sits every Wednesday without fail.

21. The government makes sure that foreign direct investments result in transfers of technology and management know-how, whether by agreement or through Malaysian workers and managers observing closely the operation of the businesses. Over time Malaysians have acquired the capability to invest and manufacture practically everything that foreign investors produce, including sophisticated electronic products.

22. In the petroleum industry, for example, the National Petroleum Company, Petronas, did not just collect royalty and profits from production sharing, but learnt all about the petroleum industry; from exploration to production and product marketing worldwide and also the petro-chemical industries. Today, Petronas operates in over 30 countries in every aspect of the petroleum business. It is listed among the Fortune 500 companies.

23. It is the same with the automotive industry, high-tech industries and Information Technology, construction, metal fabrications, finance etc. This domestic capability has become very important because foreign investors are not investing much and when they do they choose other countries where labour costs are lower. Investments by locals have now filled the gap and Malaysia's industrial capacity has continued to grow. In addition more and more Malaysian constructors are getting contracts abroad.

24. To catch up with the developed countries, Malaysians must be imbued with confidence in themselves. They are encouraged to do anything that others have done or can do, and do them better. A Malaysian sailor sailed solo around the world, establishing a world record. Malaysians climbed Mount Everest, parachuted over the North Pole, swam the English Channel, etc. Considering that Malaysia is in the tropics, these feats are much more challenging and they help convince Malaysians that they are as capable as anybody else. A slogan "Malaysia Boleh" or "Malaysia Can" was coined i.e. Malaysia and Malaysians can do anything that others can do. This has helped Malaysians to face any challenge individually or as a nation. A Malaysian Book of Records keeps track of all the feats performed by Malaysians.

25. Prudence is a quality that is not indigenous to Malaysians. Like most people the urge to spend is very great. With increasing prosperity, Governments are often tempted to expand money on expensive symbols with no financial returns. Many believe that Malaysia succumbed to this temptation. How else can we explain the many big projects which are seen in Malaysia?

26. The projects are admittedly big. But they have not bankrupted the country. They are all affordable and they all give a return on the outlay of capital. Although it is not rich, Malaysia has a lot of money in the system. This is because of Malaysia's very high saving's rate (almost 40 percent of the GDP). Apart from the Employees Provident Fund which holds more than 200 billion Malaysian Ringgit, the Pilgrims fund Board, the Government Pension Fund, the National Savings Bank etc., have amassed huge savings. Even after the Government borrowed from the EPF, there is still a lot of money for the fund to invest or to lend.

27. The huge savings is one of the reasons Malaysia did not borrow from the IMF during the financial crisis. Once we succeeded in stopping the flows of capital out of the country, what remains is to manage the money we have, to support businesses affected by the financial crisis and to invest in jobs and wealth-generating projects for recovery.

28. Three institutions were set up to handle the Non-Performing Loans, the near-bankrupt companies and the banks affected by the financial crisis of 1997. The Asset Management Company or Danaharta bought the loans of the troubled companies and took over the management in order to restructure and negotiate settlement with the banks. The Capital management Company or Dana Modal, injected new capital into the troubled banks and helped with the management in order to turn them around and pay back the capital injected. The CDRC (Corporate Debt Restructuring Committee) brought together the companies which were unable to settle moneys owed to each other and help negotiate settlements fairly and in a mutually beneficial way.

29. The Financial Crisis tested the abilities of Malaysians in financial management. They acquired considerable expertise which not only enabled Malaysia to overcome the downturn but also to manage the country's development without over-dependence on foreign borrowings. That is why the devaluation of the Malaysian Ringgit did not cause Malaysia to default on foreign loans. We did not have much by way of foreign borrowing. We borrowed only as much as we could pay. Our credit ratings are high and foreign banking institutions have always offered Malaysia the best rates. But Malaysia's need to borrow is minimal and in most cases foreign loans are raised to benchmark Malaysia's creditworthiness.

30. Infrastructure contributes to a country's growth. They reduce cost and promote business. One of the reasons for countries remaining poor is due to their inability to build needed infrastructures. The great civilisations of the past developed because the people were skilled in damming up rivers to provide water for agriculture. That was the story of Saba, ancient Yemen, of Egypt and the basin of the Tigris and Euphrates. The Roman Empire was built and sustained by good roads, bridges and viaducts. Islamic Spain prospered on artificial irrigation.

31. As Malaysia grew economically, huge sums were spent on building road, irrigation canals, ports and airports, water supply and power plants. The construction of all these contribute to employment and business, i.e. to economic growth. After commissioning, they help to bring down the cost of living, stimulate business, and improve living standards. Investments by both locals and foreigners increased. At the same time, they helped accelerate Malaysia's advance towards becoming a developed country.

32. Business is something that Government is never good at. Usually when government does business it insists on a monopoly. Monopolies, by removing competition, tend to be inefficient. Inefficiency adds to cost and stifles development.

33. The socialist believe that if government takes over a business, then instead of merely collecting a percentage of the profit as taxes, it would get all the profits. Nationalisation would therefore increase Government income.

34. But when Government takes over a business, invariably the costs go up. Workers demand higher pay and less work. The executives on the other hand cannot be paid high salaries and given the perks that they consider their due. In socialist enterprises the tendency is to reduce the income disparities between the executives and the workers. The communist in their effort to be egalitarian want to pay everyone, whatever may be their contribution or responsibility for the business, the same salary. The result is that the supervisors and managers lose their interest to make profits for the enterprise. There is no reward for their extra input. The workers assured of their employment and income will not increase their productivity either. Profits would be reduced and 100 per cent of it could be less than the taxes collected before full ownership by the Government.

35. In a Socialist State there will be no rich people or even middle class people who can afford to buy expensive products. The market for the products of the nationalised enterprises would shrink. Of course this would reduce profits further. In the end the enterprises may need to be subsidised by the Government. But how can the Government subsidise when the revenue shrinks due to lowered profits by state-owned businesses?

36. It is wrong to think that the ownership of business by Government would benefit the Government and the country. It is more likely that everyone would lose. This is why the people of socialist and communist countries are generally poor while the people, including the workers in the market economies are able to own cars and enjoy a high standard of living.

37. Although Malaysia does have a few nationalised businesses, but mostly it believes in the free market and prefers private enterprise. And so, long before privatisation became popular the Malaysian Government was already selling off not just Government owned businesses but many of the Government functions as well.

38. Among the first utility to be privatised was telecoms. Malaysian privatisation is subjected to two conditions. No worker may be sacked unless he himself chooses to leave the service. For this he must be adequately compensated. Secondly the privatised company must offer wages better than those of the Government to the employees who choose to join it. The employees however may opt to continue with the Government pay scheme. If they choose to do this, then if the company's pay scheme improves, they may not switch to the company's pay. Most opt for the Company's pay scheme from the very beginning. The privatised Malaysian Telecoms now pay their employees much more than the old Government rate. In addition during good years handsome bonuses are paid.

39. Although there are failures but mostly privatisation has been successful. The failures are largely the result of the currency crisis. When Telecoms was a Government Department it never made a profit. Instead Government had to allocate funds yearly for

its operation and expansion. Today Malaysian Telecoms make huge profits even though licences have been issued to seven other companies which compete with the privatised Malaysian Telecoms.

40. For single-ethnic nations it is difficult to appreciate the problems of multi-ethnic nations. Malaysia does not just have multi-ethnic population but the different ethnic groups also profess different cultures, languages and religions. The Malays are all Muslims, while the Chinese are Buddhist and the Indians, Hindus. There is also a sizeable community which is Christian. Reconciling all these differences is a major problem. Failure would result in instability and would affect development adversely.

41. As you know Islam does not deny that there are people who do not believe in Islam. Some are people of the Book, while others worship different gods. Islam does not advocate force in the conversion of non-Muslims. We have therefore to accept living with non-Muslims in our midst. If this is not permissible then Muslims cannot travel anywhere outside the 100 per cent Muslim countries. Certainly Muslims cannot migrate and settle in non-Muslim countries as many have done for various reasons. Muslims must accept having to live with non-Muslims, whether as a majority or minority.

42. Historically we know that when the Muslims ruled Spain, Christians and Jews formed a good part of the population and they were allowed to practice their religions. Some converted to Islam. This was because the Muslim worldly civilisation at that time was superior to that of the European Christians.

43. In Malaysia we are very tolerant of the different races and religions. We worship in our own way and they in their own ways. We do not expect conversions although a few do convert, but we do expect and we do get respect for Islam and the Muslims. In return we respect their rights to their beliefs.

44. Muslim rule must be seen to be fair and just. This is especially so in the enforcement of the laws of the country. The Malaysian formula which ensures that all laws conform to the Islamic injunction that when you judge you must judge with justice has not only gained the support of all races but great respect for Islam. It is necessary that everyone feels assured of fair and just treatment under the laws of the country in order for them to feel secure in going about their daily lives and contribute to the economy of the country.

45. There are some who for political reasons want to impose their own version of Islamic laws, in particular the hudud laws. Their interpretations of hudud laws would result in injustice for the Muslims in particular and also for the non-Muslims. They are therefore not Islamic and not hudud laws at all. The so-called Islamic Party of Malaysia merely wishes to embarrass the Government and win votes for themselves by claiming that they are more Islamic than the Muslims in the Government of Malaysia. They do not care that their proposed laws are improperly legislated, unjust and unIslamic.

46. We reject their politicised version of the hudud and continue to apply the properly codified Shariah and common laws. The result is a just society and a stable one. It is a society that can develop and grow despite being multi-racial and multi-religious. There are precedents in the history of Islamic States particularly during the rule of the four rightly-guided caliphs. Special laws were enacted for non-Muslims. Besides we have to remember that today there are many Muslim minorities in non-Muslim countries. As much as we do not like Muslims living in non-Muslim countries to be subjected to any

kind of injustice, we in Malaysia would not want non-Muslims to be subjected to any kind of injustice. The fairness and justice of the Malaysian Government contradict no Islamic tenets. Certainly the stability and peace which they help to maintain and which are enjoined by Islam contribute much towards the development of Malaysia.

47. It is said that a Muslim country cannot be governed well and cannot progress. If this is true, then there would not have been a Muslim civilisation greater than all other civilisations in the history of mankind. The fact that for 1,300 years the Muslims were the most progressive and the most enlightened people, with great worldly wealth proves that what is said about Muslim states not being governable is not true. In fact if we compare many of the Muslim states today with what they were 50 or 60 years ago, we must conclude that they have made some progress. The problem is their progress is too limited and too late by comparison with the developed non-Muslim states. If 50 or 60 years ago they were as developed as they are today, they would be at par with the others. But they were not able to do this before because of the resistance by misguided forces in their society. They are like runners with a cannon ball chained to their legs trying to keep up with others who are free from any encumbrance. They can only make slow progress from the starting point but soon they would be left far behind. Relieved of the cannon ball, they should make greater speed and may catch up with the others.

48. The recipe for progress is to rid oneself of the cannon ball in the mind. By believing that we can do what others can do, half the battle is won. Allah s.w.t. has bestowed upon us humans with the amazing capacity to learn and excel in anything, if we are prepared to try and to do it over and over again. Malaysia believes in trying again and again until we succeed. That is basically the Malaysian formula, the Malaysian recipe for development.