

**SPEECH BY
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“Malaysian Model in Investment and Economic Development”

Firstly I would like to thank Damascus University for this invitation to speak on the Malaysian Model in Investment and Economic Development. As a Malaysian I feel it is a great honour that you should be interested in Malaysia as a model. Malaysia itself has based its policies and development on various models, but in particular those of the Far Eastern countries, such as Japan and South Korea, which had been able to rebuild themselves after the terrible destruction of their countries during the Pacific War.

2. Of course we could not copy everything that they did. Our situation and our country is very different from theirs. While they are single ethnic countries, ours is multi-racial, multi-religious, multi-lingual and multi-cultural. If we accept that the development and progress of any human society or country is a function of the values and culture of the people, then it is obvious that a plural society with very different values and cultures must be more difficult to develop, and certainly much more difficult to develop together and to the same degree. Yet if they don't develop together and equally, there is bound to be jealousies and conflict.

3. The racial and other differences in Malaysia are amplified by the differences also of economic development. Of the three races in Malaysia, the Malays, Chinese and Indians, the least developed and the poorest were the Malays, the indigenous people. The Malays are all Muslims. The Chinese who are Buddhists are the most dynamic in education and in business. In between are the Indians who profess the Hindu religion.

4. A country cannot develop unless it is peaceful and stable. The mixture of races, religions, cultures and languages, together with extreme economic disparities between them does not hold promise of stability and peace in Malaysia. If the country is to develop the first need is to ensure reasonably good relations between the different races in order to achieve stability for the country.

The Malays who made up the majority and were indigenous to Malaysia decided to work with the Chinese and Indians in the struggle for independence.

5. The three set up racially based parties which then joined together to form a coalition. The philosophy is simple. The Malays hold political power while the Chinese and Indians hold economic power. Political power by itself would not prosper the country nor would economic power thrive in a politically unstable country. By joining together there would be both political and economic stability and strength to build the country. The political and economic power are shared in such a way that the Malays will enjoy a part of the economic wealth, while the Chinese and Indians, enjoy some of the political power of the Malays. This equitable sharing is what made Malaysia stable. We all believe that it is far better to have a slice of a growing economic cake in a stable country, than to have all 100% of a shrinking economic cake in a country constantly in turmoil because of racial confrontations.

6. Having resolved this racial problem, we then turned towards economic development. Under the British, Malaysia's economy depended entirely on the production and export of tin and rubber. As the demands for these commodities fluctuate, they cannot be depended upon to grow the economy. Besides they did not create enough jobs for a fast-growing work force.

7. It was decided therefore to go into the manufacturing industry. But at independence Malaysia had no industrial know-how, no capital, no management expertise and no knowledge of the world market. We had to turn to foreign investors with the expertise and the capital. At a time when the newly independent countries were nationalising foreign investments and expelling foreigners, we went in the opposite direction. We invited foreigners to come and invest in manufacturing because we wanted jobs for our people.

8. To attract foreign investments we offered tax-free holidays and other incentives. Industrial parks with the necessary infrastructure were set up by the Government. The industries were export oriented, as the domestic market was small. If they wanted to sell their products in the domestic market they would have to pay import duties. The industries were labour intensive so as to help overcome our unemployment problems.

9. So successful was this strategy that for more than a decade now Malaysia has full employment and we have almost 1.5 million foreign workers to fill the jobs we created.

10. While labour unions are quite free to take industrial action, strikes are few and far between. Increases in wages are due to shortages of workers and their high productivity, creating a need for better wages in order to attract labour.

11. Over the years local capital and expertise have been built up so that many of the components of the manufactured goods of foreign companies are produced locally by locally-owned industries. Today Malaysian companies are capable of manufacturing almost all the products initially produced by foreign-owned companies. Malaysians are now actually investing in foreign countries to manufacture sophisticated products ranging from household appliances to microchips. The capacity and expertise of Malaysians are now almost at par with the foreign investors and industrialists.

12. Where before 100% of Malaysian exports were made up of raw materials such as rubber and tin, today these commodities including palm oil and petroleum make up only 18% of total annual exports which amount to 100 billion US Dollars. 82% of the exports are made up of manufactured goods with electronics making up more than half the total.

13. Malaysia has now become an industrialised country, depending less and less on FDI as its own people now have the capital and expertise to invest and to manage the manufacturing industries.

14. The fear initially was that the foreign investors might try to dominate the country and interfere in its internal affairs. Generally investors do not want to antagonise the authorities. They want to have a good return from their investments. As long as they receive fair treatment and Government is generally business-friendly foreign investors no matter where they come from would be happy. Workers and trade unions must also be reasonable and productive so as to benefit the company and encourage others to invest.

15. Malaysia is not rich in resources, at least not as rich as the Arab countries with oil. For Malaysia, before economic development can take place, we have to enrich the country first. The industrialisation of the country is meant to enrich the people and increase Government revenue.

16. Although investments in the manufacturing industry is largely tax free, still the incomes of the workers and managers help to stimulate consumption and eventually local investments. The profits from the local businesses are taxed presently at 28%. It used to be 45% but after reducing the tax rates revenue increased. In fact in one case by removing import duties completely Government revenue increased by many times the import duty collected previously.

17. With more local business activities Government revenue from corporate and other taxes increased considerably. Apart from salaries and wages for Government employees, most of the revenue are spent in education and infrastructure to support industrialisation and the quality of life of the people.

18. In any year 25% of the budget is spent on education. Hundreds of thousands of Malaysians are sent abroad to acquire professional qualification from recognised institutions of higher learning.

19. At home 17 universities have been set up by the Government and more than 20 by the private sector. Some 500 other institutions provide training in various fields. Under the Look East Policy students and workers are sent to Japan and South Korea for education and training.

20. Literacy rate in Malaysia is more than 90%, with most of the people trained in science, technology and engineering, including I.T.

21. Young Malaysians are also taught to be self-confident and willing to face challenges. A Malaysian sailed solo round the world, four have climbed Mount Everest and one swam across the English Channel. As a result Malaysians believe that anything other people can do they can do. This spirit is very important because we are chasing people and countries which are well ahead of us, people who are supposed to be more capable than us.

22. Today Malaysian engineers and scientists work all over the world, in the tropical jungle, in the desert, in developed and developing countries. They can contribute towards the economic development of the country they work in and to their own country.

23. Infrastructure play a big part in economic development. No one, not even nationals will invest if there are no good roads, railways, ports and airports to serve the economy. The construction of these will in themselves contribute towards job creation and business opportunities. When completed villages and towns grow adjacent to the infrastructure and generate more economic activities.

24. As Malaysia is a trading nation, ports and airports are important to facilitate the movement of goods and people. Government has invested in a number of ports and airports, and helped the private sector to do the same. Now more and more freight in the region use Malaysian ports and airports. More than 10 million containers yearly pass through Malaysian ports and the Kuala Lumpur International Airport alone handles 18 million passengers and a high tonnage of air-cargo.

25. To expedite growth of the economy the Government decided to privatise many of the Government utilities, functions and companies. Usually employees are opposed to privatisation because they lose job security or the private company may offer wages and perks which are inferior to what they are enjoying. To get their support two conditions are imposed for privatisation :

- i) Employees may not be laid off unless they themselves want to. Even then adequate compensation must be paid to them. Employees can

request to be paid their old salaries in the Government. But if they do this then they will not be eligible for company bonuses or increases in pay.

ii) The pay scale for the privatised entities must not be inferior to what the employees had been getting when in Government service and where possible must be superior to Government pay scale and the perks received.

26. There have been failures of the privatised entities but these were largely due to the financial crisis faced by Malaysia in 1997 – 98. Otherwise the privatised entities are more efficient and more profitable. Many have grown many times bigger and have even gone to other countries to operate.

27. In most instances Government has to subsidise the private company. In the case of toll roads, telecommunication, power, assets such as land, buildings, roads which had already been built, power plants etc were transferred to the private company at nominal values. If they are sold at market prices then the cost to the private company would be very high. To recover their capital outlay the companies would have to charge very high rates. There would be protests from the consumers and they may refuse to use the utilities. The private companies would lose and the privatisation would fail.

28. The subsidies by the Government are not for the private companies but for the public. They would not have to pay high rates for toll roads, phone calls or electricity as a result of the subsidies.

29. The Government does not lose anything because all these assets were acquired a long time ago at very low prices. Besides the profits made by the private companies would be taxed at 28%.

30. Prior to privatisation the telecommunication department for example had to be supported by the Government with an annual budget of about 200 million Malaysian Ringgit. After privatisation the company made more than 1 billion Malaysian Ringgit a year. Since Government holds about half the equity, a substantial dividend is received by the Government. In addition the Government now collect taxes from the telecommunication operations where before it collected nothing but had to provide funds yearly.

31. The employees are happy as their wages are higher than when they were in the Government telecommunication department and in addition they get as much as two months bonus during a good year.

32. In many countries the people and the workers are opposed to privatisation. But in Malaysia there are workers who demand for privatisation.

33. The development of the country has been accelerated by privatisation because much of the infrastructure needs such as express highways, modern telecommunication services, and power plants are now built by the private sector. The Government development expenditure now goes to infrastructure projects with no direct returns.

34. The Government delivery system has been improved. Bureaucratic procedures have been shortened and decisions made much faster. Every Government employee is provided with a Desk File to instruct him on the work he has to do in each case, and a Manual of Procedures which explains the Workflow in diagrammatic form. Thus if an application for a licence or land is made to a Government Department, every officer and clerk would know what he has to look for and what he has to do to the application before passing it on to the next officer. This way bureaucratic procedures are minimised and approval or rejection expedited.

35. Malaysia operates as a single corporate entity in which the Government, the private sector and labour unions are regarded as partners in the country's development. Everything that can be done by the Government to ensure that businesses run smoothly and successfully will be done by the Government. This include amending laws and enacting new laws as suggested by the private sector. Government procedures are simplified so as not to cause confusion and delays.

36. The Government wants the businesses to succeed and make profits because 28% of the profits belong to the Government in the form of corporate tax. In addition the Government can in the spirit of Malaysia Incorporated direct the businesses in the direction that most benefits the development of the country. Thus the businesses have been told that the country cannot have any more labour intensive industries which depend on foreign labour. Instead the Government wants workers to be highly trained to man new hi-tech industries where workers can be paid higher wages. In some industries in Malaysia, half the work force would be made up of qualified engineers and the rest mainly skilled technicians. Manual labour is minimised because they would get low income and their contribution to the wealth creating circulation of the money would be very low.

37. Inflation rate has been kept very low (about 1 - 4 %) so as to maintain the purchasing power of the local currency, the Malaysian dollar or Ringgit. It is not the amount of money earned which is meaningful. It is the amount of goods and services that can be bought with wages or profits which will sustain and improve living standards. High inflation means depreciation in the value of the money earned. This cannot be countered by increasing wages, because that will start a wage / price spiral, in which the increase in income will be met with the increase in the price of goods and services as the suppliers raise prices in order to increase profits to cover the increases in wages and the purchase of new stocks

of goods and the cost of services. In the end the increase in wages does not increase the purchasing power of the wage-earner. It may even be able to buy less than before. A new round of wage increase may be necessary, but this can cause another increase in the prices of goods and services.

38. Yet for the standard of living to be improved everyone must earn more and more. This must be done without the increase in the cost of goods and services. The only way to do this is to increase productivity either by improving the skill of the workers or using better production methods.

39. Wages have increased considerably in Malaysia but productivity has kept pace with wage increases and in many cases the productivity increases are higher than wage increases. The businesses earn more profits and the Government more revenue.

40. When Malaysia became independent in 1957 the per capita income was 300 US Dollar. Today the per capita income is around 5000 US Dollar. The purchasing power of this income is more than double. Malaysia is very stable and peaceful. The policies and development strategies of Malaysia have contributed towards this achievement.
