

**DINNER TALK BY H.E. TUN DR MAHATHIR BIN MOHAMAD
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MANDARIN ORIENTAL, KUALA LUMPUR ON 23 MARCH 2006**

“THE MALAYSIAN VISION 2020- A VISION IN ACTION”

*Bismillahirrahmanirrahim
Assalamualaikum warahmatullahi wabarakatuh;*

His Excellency Dr. Ahmad Mohamed Ali
Presiden of the IDB group;

Distinguished members of the IDB 1440 Hijrah vision commission;

Members of the IDB board of executive directors and management;

Ladies and gentlemen.

1. Firstly, let me thank the IDB group for bearing with me yet again and for this invitation to talk on “The Malaysian Vision 2020 – A Vision In Action”. Earlier in the day, you have been briefly exposed to several case studies of realizing such a vision in Malaysia. Let me now attempt to elaborate on this Malaysian recipe for growth so that it does not sound too much like some magic formula but should look as doable as it really is.
2. May I begin with the paradoxical statement that the only permanent thing in life is change. Organisations, societies, nations and even civilisations undergo changes all the time. The changes that take place are usually a response to the surrounding environment. The greater the ability to change and respond to external or internal forces the more dynamic the organization, society, nation or civilization will be. Those which fail to adjust and to deal with these challenges would decline, be deemed obsolete or worse, would perish. Many civilisations have disappeared because complacency bred rigid orthodoxy and the worship of traditionalism resulting in resistance to change or to adjust and to accommodate the changes in the environment. Certainly it will prevent the changed environment from being taken advantage of to improve the prevailing situation.
3. Usually, the adjustments are unplanned. But as you know, Malaysia believes in planning. We know that things may not work out as we planned. Internal and external forces may get in the way. But we would at least know the target we are aiming at and the direction that we must take. These alone will ensure that we will not go off-course or actually in reverse.
4. We know that in the end it is Allah s.w.t who will determine our success or otherwise. But we also know that we must make the effort ourselves before he would help us. As to being pre-ordained, if we make the effort and we achieve success, that too would be pre-ordained.
5. Malaysia itself went through several evolutions after reaching independence in 1957. As you have seen earlier, our socio-economic development policies also evolved

to suit the prevailing conditions. In the 1960s, Malaysia had a high rate of poverty and unemployment among our rapidly growing population. Growing rubber trees and mining tin could only provide a limited number of jobs. After analyzing our options, we decided that only industrialization could lead the way to creating enough employment for the people.

6. Not having the manufacturing know-how, capital, management skills and knowledge of the market, we turned to foreign investments. This was where we parted ways with other newly independent countries. Not only was Malaysia not nationalizing foreign holdings, it was actually increasing foreign investments in the economy. To protect our national interests from adverse foreign dominance, we imposed reasonable conditions which were bearable, while providing incentives such as tax exemptions and other benefits. The government became business friendly and accessible to investors. Concentrating on labour intensive industries, foreign investments not only reduced unemployment but improved industrial skills of our workers and managers. Additionally the investments stimulated the economy, enriching the people and contributing directly or indirectly towards government revenue.

7. The foreign-owned industries also spawned a pool of skilled workers and capable managers. Technology was directly or indirectly acquired, first to produce components for the foreign manufacturers, then to establish fully Malaysian-owned manufacturing industries. The labour-intensive industries created so many jobs that Malaysia now is enjoying full employment. In fact, we have to import foreign workers. As a result, Malaysia with a population of 26 million, is the 17th biggest trading nation in the world. Exports, worth 100 billion us dollars a year and growing, are mostly made up of manufactured goods.

8. Foreign direct investments are more difficult now as there are many competitors. But the technology and management skills acquired by Malaysians now enable domestic investments in many industries to be undertaken by locals.

9. Malaysia has a relatively small reserve of petroleum. But right from the beginning we decided that PETRONAS, the national petroleum company should learn all about the industry, should be directly involved in all related activities from exploration and production right down to petro-chemicals, shipping and retailing.

10. We also decided to go abroad to produce and to market. Today PETRONAS operates in 36 different countries worldwide in all areas of the petroleum industry. I believe most national oil companies confine themselves to collecting royalties. While for some this would be huge but not involving in the total industry leaves us dependent on foreign expertise for the wealth of our resources. We cannot always rely on foreign expertise. They have their own agenda which may not coincide with our agenda.

11. Very early the Malaysian government realized the potential and the future of the information and communication technology. We did not have the expertise or the personnel but by setting up the multimedia super corridor we were able to attract foreign investments and encourage locals to set up new businesses using ICT. The multimedia super corridor is conveniently located in an area with the biggest population concentration i.e. between Kuala Lumpur and the new international airport. All the necessary communication infrastructure has been provided and incentives given. Apart

from acquiring technology from foreign companies, tens of thousands of high-tech high-pay jobs have been created. Eventually this increased government revenue and contributes towards growth.

12. Malaysia has now become an industrialised country, accidentally at first, but deliberately planned later. The government regularly allocate at least a fifth of the national development expenditure to education and training, believing that knowledge is the key to better earnings for its people. This has proved to be correct. Malaysia's literacy rate is now about 95 per cent. Consequently, its work force is readily trainable and employable.

13. In addition, wages in Malaysia are lower than those in industrialised countries. Although we realise the need to increase workers' income and to give them a better quality of life, Malaysia is a trading nation and we are very conscious of the need to be always competitive. Wage increases must be accompanied by higher productivity. If not, we could price ourselves out of the market, new investments would not come in and there will be increasing unemployment. The Malaysian workers and their unions understand and appreciate this. As a result, there is usually industrial peace in Malaysia. This attracts new investments, create more jobs and greater demand for workers, which in turn results in higher wages. all these contribute to economic growth, greater wealth for the country and higher living standards.

14. Another ingredient of the growth recipe is keeping the cost of living low, which results in higher purchasing power even though wages are far below those of developed countries. Low inflation is very important for economic development and keeping it low and stable is one of the major tasks of the Malaysian government. Although the market is free to operate, the prices of essential goods are controlled and the movement of prices in the market are monitored. Profiteering is severely curbed. These are amongst the ways Malaysia is able to keep inflation low. The competitiveness of this country is thus maintained but the standard of living is improved because the cost of living is low and greater skill and productivity results in better wages and incomes enabling the people to have higher purchasing power.

15. While we are talking about the subject of human resources, allow me to dwell on the role of women in development. To win or even merely to sustain ourselves in what has become a very competitive world, we need to use all the resources at our disposal, of which human resources are the most important. Since the human community is made up of men and women, it is important that members of both genders contribute towards the strength and competitiveness of the community. What is more, women make up 50 per cent of the people in any community. If we discount them then we discount half of our human resources. We would be undermining our strength. Women may be physically weaker but their intellectual capacities have shown to be no less than the men.

16. We may be pressured all the time by the ethnic Europeans to give equal rights to our women but we need not accept their version of equality. There must be some limit and the injunctions of our religion must be respected. What is a fact however, in the Muslim world there are many interpretations of what Islam requires of our women. I will not go into the rights and wrongs of these interpretations but the one thing that one must uphold is that Muslims must have the capacity to defend the *ummah* and the religion in

every way. If in order to do this successfully we have to give a role to the women, then within the moral codes of Islam we must do so.

17. In Malaysia, we have discovered that women make skilful politicians, administrators and business managers. The number of university educated women was also increasing as the Malaysian education policy has always been gender neutral. In the government, women were able to hold the highest posts, including as principal secretaries in the ministries and agencies. Still there were more women than the government can absorb. It is natural therefore, for them to move into the business sector. Women business executives became more prominent, competing successfully with the men for senior executive posts in the big firms, both locally owned and foreign. Many joined banks and other financial institutions. Surprisingly the number of women among business executives in Malaysia is, as a percentage of the population, bigger than is found in the ethnic European countries. Certainly it is much bigger than in Japan or other successful East Asian countries. The opportunities for Muslim women in Malaysia are actually better than in most countries where women are supposed to be more free and equal. Thus, it is possible to include women in nation building without losing our moral values and our submission to our religion.

18. Infrastructure is another important ingredient in nation building. They reduce cost and promote the growth of businesses. One of the reasons for countries remaining poor is due to their inability to build the much needed infrastructures. The great civilisations in the past developed because people were skilled in damming up rivers to provide water for agriculture. This was evident in Saba of ancient Yemen, of Egypt and the basin of the Tigris and Euphrates. Islamic Spain prospered on artificial irrigation. The Roman Empire was built and sustained by good roads, bridges and viaducts.

19. As Malaysia grew economically, huge sums were spent on building road, irrigation canals, ports and airports, water supply and power plants. The construction of these growth enablers help bring down the cost of living, stimulate businesses 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.

20. Allow me to share one example of the positive impact of putting in needed infrastructure. Upon the completion of our north-south highway in 1989, which connected the southernmost and northernmost cities in peninsular Malaysia, the journey between these 2 cities were reduced by half. The daily average traffic volume in the first 5 years of its operation increased by more than five times to nearly 600 thousand vehicles. new towns sprout out all along the highway which in turn generated new businesses, taking advantage of the better access provided. So, not only does the highway raise productivity and efficiency, it has become a source of growth itself.

21. But the greatest undertaking for the Malaysian government is to manage race relations. Malaysia does not just have a multi-ethnic population but the different ethnic groups also profess different religions, cultures, languages and economic wealth. The Malays are all Muslims, while the Chinese are Buddhist and the Indians, Hindu. There is also a sizeable community which is Christian. Reconciling all these differences is a major challenge. Failure would result in instability and would affect development adversely.

22. In 1969, the disparities in economic wealth between the indigenous people and the Chinese resulted in race riots in Kuala Lumpur. Following the riot, the government decided to reduce the disparities in wealth between the races and came up with the new economic policy or NEP, an affirmative action policy which has the twin objectives of eradicating poverty irrespective of race and removing the identification of race with economic functions. From then on, all the five-year national development plans and long-term perspective plans took into account the objectives of the NEP. Although the targets of the NEP have not been fully achieved, poverty has been reduced from more than 50 per cent to 5 per cent, while the disparities in economic wealth between the indigenous people and the non-indigenous Chinese and Indians have been reduced quite significantly.

23. While the NEP aims at reducing economic disparities, efforts had to be made to reduce tension between the races. The school system has failed to bring the children of different races together. Observing that during the *eid* festival people of all races and religions would visit their Muslim friends, this practice was extended so that there would be open houses during the festivals of every race and religion. Government leaders especially would hold open houses during religious or cultural festivals so that the people of all races could visit the leaders by the thousands. Finally, the government introduced official festivals for every religion and culture and people of all races or religions would gather to enjoy the food and the cultural shows. The mixing of people of different races and religions has helped to reduce tension and build a more tolerant society.

24. We are not averse to learning from others' experiences, be it from Muslims or non-Muslims. Having observed how quickly Japan, South Korea and Taiwan recovered from the Pacific War and how they caught up with the developed victorious countries, Malaysia decided to learn economic development from these countries while still looking at the European models. We 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 workers.

25. Another lesson we have learnt is the close cooperation between the government and the private sector in Japan and South Korea. Based on this model, we developed our own Malaysia Incorporated concept. The fundamental basis of this concept is that both the public and private sectors adopt the notion that the nation is a corporate or business entity, jointly owned by both sectors and working together in pursuit of a common mission of the nation. 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 received, the government is able to take corrective measures.

26. Under the Malaysia Inc., concept the private sector has become a full partner in development in Malaysia. Private sector investment was boosted further through privatization projects in the country. 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 perks and possibly better wages 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. In addition, during good years handsome bonuses are paid. Although there are failures, privatisation in Malaysia has been mostly successful. The failures are largely the result of the currency crisis in 1998.

27. Since its inception in 1983, a total of 490 projects have been privatised in Malaysia, 144 of which are new projects. Over 113 thousand people were taken off government payroll and transferred to the private sector when the public entities were privatised. The government incurred immense savings due to privatization. Because it need no longer maintain the privatised entities, it has saved over 2 billion us dollars of operating expenditure. Because it need not finance the 144 new projects, it saved 40 billion us dollars of capital expenditure. This expenditure constituted nearly 10 years worth of funds that the government would have had to provide if these projects were not privatized. In addition, the government also received proceeds from the sale of government equity to the amount of 6.5 billion us dollars. Privatization also helped to strengthen the local stock market. The 42 privatised entities listed on the Kuala Lumpur stock exchange is worth 46 billion us dollars, which amounted to nearly a quarter of total market capitalisation.

28. I would now like to say something about the very special role of the government in growing the economy. When business corporations invest their capital their expectation is that they would make a profit, i. e. a return on their investment from the money they spend on their businesses.

29. But governments get a return on their own expenditure and other peoples expenditure from the taxes that they collect. Of course if the government invest in a business enterprise it may get a profit in addition to the t axes on the profit and other economic activities that the investments activated. If these activities help the economy to grow then the tax collection would keep increasing over the years.

30. Of course when the private sector invests and makes a profit, the government earns corporate tax on the companies profit. But because in order to make the profit the company purchases goods and services, the companies which provide the goods and service will also make profits and the government will also collect tax from them. They in turn would be spending money buying goods and services and the companies supplying these would pay taxes to the government.

31. What is clear is that when money is spent by the government or the private sector, somewhere along the line the government will collect taxes, not once but repeatedly. The collection may not be immediate or direct but over time the government will increase its revenue as the economy grows.

32. What the government spends today will practically all be recovered in the years to come because of the growth. What the government is collecting today is the result of government spending in the past.

33. Therefore one way to stimulate the economy is for the government to spend money. Of course there is a limit dictated by its funds and its servicing capacity for loans. But within limit the money spent will be recovered through taxes on the growing economy.

34. As an example in 1982 the Malaysian government invested 480 million ringgit in an automobile industry. In the 10 years between 1996 and 2005 the government revenue through various taxes on the industry and the cars produced and sold was about 18 billion ringgit. In the meantime, during the same period the industry earned a profit of well over four billion ringgit.

35. If the government had kept the money without investing, there would be no such industry and no taxes to collect. Actually in these days when inflation cannot be avoided saving money means losing money. Government spending stimulates private sector spending and economic growth. And economic growth leads to bigger government revenue, which in turn leads to bigger government spending which further stimulates economic growth. It is a virtuous cycle which benefits everyone.

36. All that I have mentioned above made up but a small component of the measures taken to achieve Malaysian vision 2020. In the vision, the document the challenge which covers the economic perspective is the last of the nine challenges* economics are mere means to achieve our goal, not an end in itself. the vision is multi-dimensional in nature, mostly touching on societal improvements, in that we hope by 2020 to become a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically-just and equitable, progressive and prosperous and in full possession of an economy that is competitive, dynamic, robust and resilient.

37. Many of these elements are not quantifiable but this should not stop us from pursuing the lofty goals of the vision. Sadly, it is a common stereotype 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.

38. It is my ardent hope that the IDB group will adopt the 1440 Hijrah vision and see through its implementation. I will be the first to confess that it is not perfect but adjustments can and should be made along the way. but the bank group must be prepared to be self-critical, be willing to make the necessary changes, work together with other development partners and most important of all, persevere. After all, this is demanded of us as stated in the Quran, *Surah Baqarah* 2:153:

“O you who believe, seek help with patience, perseverance and prayer: for allah is with those who patiently persevere.”

39. The recipe for progress is to rid oneself of the self-imposed shackles in the mind. By believing that we can do what others can do, half the battle is won. *Allah Subhanallahwa ta'ala* 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 the ideology of pragmatism and in trying again and again until we succeed. That is basically the Malaysian formula, the Malaysian recipe for sustainable growth and development. That is the Malaysian vision.

Thank you
