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(PRIME MINISTER)

EVENT: THE DINNER IN CONJUNCTION WITH THE OFFICIAL OPENING OF
BANK NEGARA MALAYSIA

VENUE: THE INN ON THE PARK, LONDON

DATE: 25 MAY 1989

TIME:

My Lords;

Excellencies;

Distinguished Guests;

Ladies and Gentlemen,

I am pleased to be here with you tonight and to share with you a significant moment with the opening of Bank Negara or the Central Bank of Malaysia's Representative Office in London.

2. The opening of Bank Negara's Representative Office here is a momentous occasion for us and a source of great pride to Malaysians. For here yet again is another symbol of Malaysian progress and prosperity since our independence in 1957. It should also serve to further strengthen the close ties between Britain and Malaysia. Indeed, thirty-two years after independence, the relationship between our two countries continues to grow from strength to strength. In the manufacturing sector, for example, nearly 25 per cent of the total foreign investment comes from British sources. British interests are particularly sizeable, as it has traditionally been, in the plantation, mining, trade and services sectors. Clearly opportunities for even closer British-Malaysia cooperation in trade and industry abound. All that remains is for entrepreneurs to seize the initiative to bring them to fruition.

3. The scope for cooperation, of course, extends beyond the realms of trade and industry. Education is one example that quickly comes to mind. Another is defence, where the Memorandum of Understanding signed last year between Britain and Malaysia introduced new dimensions to an already beneficial economic collaboration between our two countries. And today, yet another evidence of tangible cooperation is expressed in the opening of the Bank Negara's Representative Office in London.

Ladies and gentlemen,

4. At the time of our independence in 1957 the Malaysian economy was very much export-oriented, based largely on rubber and tin. The agriculture, forestry and fishing sectors accounted for 40 per cent of our GDP then,

providing two-thirds of the total employment and two-thirds of the country's export earnings. Rubber alone accounted for 60 per cent while tin 20 per cent of total export earnings. However, the per capita income was a mere US\$200.

5. Malaysia experienced rapid economic transformation since 1957 with per capita incomes rising to nearly US\$1,900 in 1988. To a large extent this is due to the effective utilisation of the nation's vast natural resources. But diversification into other crops as well as manufacturing for exports have not only contributed to growth but rendered the economy more resilient. We have now become big in the export of palm oil, timber, pepper, cocoa, oil and gas as well as numerous manufactured items. Living standards have consequently improved significantly, with external reserves maintained at comfortable levels. Domestic prices are stable, while the budgetary and external payments position on current account again showing comfortable surpluses after a short period of recession.

6. The crucial turning point came in 1981-82, with the onset of the global recession and the debt crisis. Despite a more diversified economic base Malaysia, like Britain, was not spared from the contractionary effects of the world recession. In Britain, I understand, the recession of 1981-82 witnessed unemployment reaching record levels, while the inflation rate remained extremely high at over 20 per cent. At the same time, industrial production and the Gross Domestic Product slumped and company bankruptcies soared. With the implementation of tough adjustment policies designed to liberalise the economy in the midst of world recession, the British economy began to improve in 1983 with inflation brought down to under 5 per cent within a relatively short period. Adjustments in the Malaysian economy have been equally painful and have produced equally successful results.

7. During the initial down-turn the Malaysian Government resorted heavily to traditional Keynesian measures to "ride out the recession", under the impression (which later proved false) that the world recession would be short-lived. While fiscal pump-priming helped to return a respectable growth averaging about 6.4 per cent annually in 1981-82 the toll was heavy. Within a span of three years the Federal Government's fiscal deficit deteriorated from 8 per cent of GNP in 1979 to nearly 18 per cent in 1982. The prospects were for a further worsening of the fiscal position, in view of the deflation of world growth and trade. Equally daunting was the corresponding deterioration in the balance of payments. The current account deficit, which was only about 1 per cent of GNP in 1980, surged to 14 per cent by 1982. In order to finance these deficits external debt accelerated sharply from only US\$4.5 billion in 1980 to nearly US\$10.5 billion by 1982, equivalent to 41 per cent of GNP. Although still modest by international standards it was far too high for Malaysia.

8. By the middle of 1982 it was clear that the rapid increase in Government spending was not sustainable, particularly as the global economy showed no sign of the predicted cyclical recovery. Not only did the Government move away from expansionary budgetting but it began to rapidly reduce its spending. Subsidies were cut back and the operation of public enterprises rationalised. Intake of personnel into Government service was drastically curtailed.

9. Instead the Government promoted the private sector by active cooperation and support through the 'Malaysia Incorporated' concept. New incentives were provided while bureaucratic impediments to business were removed. A privatisation policy enabled the private sector to take over a number of Government services, thus reducing the burden on Government and improving the services.

10. Foreign investments were boosted by the provision of new incentives and the removal of various unattractive conditions. New industrial zones were prepared and bureaucratic procedures made more simple.

11. The adjustments were as tough as they were painful. But through perseverance the Government succeeded in turning things around. The facts speak for themselves: by the end of 1985 the Federal budget deficit had been reduced from 18 percent to 6 per cent of GNP and the balance of payments deficit from 14 per cent to 2 per cent of GNP.

12. For an economy so accustomed to receiving strong Government stimulus to sustain growth, the sharp fiscal retrenchment had severe deflationary effects on the economy. And when the commodity prices collapsed across the board with the Composite Commodity Index falling by 10 per cent in 1985 and by another 24 per cent the following year, the economy went into a tailspin. The economic growth turned negative for the first time since independence. We thought that diversification or 'not putting all our eggs in one basket' was a good strategy but no one expected all the baskets to fall crashing at the same time.

13. I am proud to say that despite the roof caving in over our heads we remained committed to our structural adjustment programme. The economy has been on the recovery path since 1986 and by the end of 1988 growth had accelerated to more than 8 per cent in real terms, a record not achieved since 1979. To some extent the strong recovery was stimulated by a pick-up in world demand as well as higher commodity prices. A surplus in the balance of payments on current account of more than US\$2.5 billion or 8.5 per cent of GNP was recorded in 1987. The current account of the Federal Government also showed a small surplus of about US\$50 million in 1988, a full year ahead of projection.

14. While 1988 was an excellent year

for the Malaysian economy, expansion of the economy is expected to be sustained in 1989, when GDP is expected to achieve 7 per cent growth. Investments, both local and foreign, are projected to remain strong. Foreign capital inflows have continued to increase as economic fundamentals remain up-beat and infrastructural facilities and support services remain excellent. Indications are that Malaysia will become increasingly more attractive to foreign investors because of various positive elements in her favour.

15. Admittedly the structural adjustment process is by no means over. The process of transforming the economy from one that is highly dependent on Government spending to one that relies more on private sector initiative and enterprise will necessarily take time. But the stage has been set for the private sector to move ahead in terms of larger investment outlays. Fiscal policy is in place to ensure that the Government provides support to private investment through adequate and efficient infrastructure and attractive incentives, while the thrust of monetary policy is towards preserving price stability and creating a financial environment that is conducive to entrepreneurship.

Ladies and Gentlemen,

16. In order for Malaysia to continue to grow and develop in the future we need not only internal discipline and initiative but also external markets. Indeed, we all need external markets or more accurately international trade in order to grow, particularly in the shrinking interdependent world of today.

17. We are at the moment trying to assure ourselves that the unification of the European markets will not affect us adversely. It would be nice if we have to deal with only one uniform set of rules when trading with Europe, possibly in one language. But powerful trading blocs have a way of dealing heavy-handedly with weak trading partners. Recently one such bloc drew a list of 30 countries which had committed some misdemeanour or other. Malaysia is in this list, having obstructed import of 300,000 sterling worth of apples a year. We have been warned that we will be punished if we do not mend our ways. That that country itself is practising all the crimes it is accusing others of is irrelevant. In international trade wealth and power is what counts.

18. Consequently you must excuse us if we continuously harp on the possibility of Fortress Europe resulting from the unification of the European markets. Our fear is very real. Our market is so small that we will not be able to retaliate in any way.

19. For many centuries we were the captive markets of European powers.

Now that we have obediently accepted European free trade principles and we have benefitted a little from them, we find that the erstwhile protagonists are intending to switch to close systems. We are forced to ask ourselves whether in fact there is no such thing as neo-colonialism or neoimperialism. Terms like NICs are invented in order to have an excuse to suppress growth in a developing economy.

20. However, Ladies and gentlemen, let us get away from these depressing thoughts. What is important tonight is that with the setting-up of Bank Negara's Representative Office in London, Malaysia would be in a better position to monitor more closely economic trends and developments so as to enable us to adapt our own strategies accordingly. As you have seen, the Malaysian economy has gone through a significant transformation over the last three decades in response to the changing needs in the world economy and in response to technological advancement. We see ourselves as a dynamic economy able to respond to these changes.

21. I understand that with the operations of the London Representative Office and the New York Representative Office set up in 1987, the Central Bank is physically present in the international financial markets round the clock - on a

24-hour basis. Apparently, central bankers do not sleep! On my part, I am able to sleep soundly these, days, knowing that Bank Negara does not sleep!

22. On that note, ladies and gentlemen, let me wish you a pleasant evening.