

SPEECH BY: DATO' SERI DR. MAHATHIR BIN MOHAMAD  
( PRIME MINISTER )

EVENT: THE TENTH CONVENTION OF THE MALAYSIAN ECONOMIC ASSOCIATION

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TIME:

Dato' Dr. Lin See Yan,  
President of the Malaysian Economic  
Association;  
Distinguished Guests;  
Ladies and Gentlemen.

I am pleased to be here this morning to officiate the opening of the Tenth Convention of the Malaysian Economic Association. The theme of this year's Convention: "Malaysian Economy Beyond 1990: An International and Domestic Perspective" is both timely and topical. Much has been discussed in the media on this subject, and it has become, in recent months, a prime reoccupation of the Government, the private sector and other interested groups.

2. As we approach the decade of the nineties, we have, perforce, to bring along with us a chain of economic events which will influence what and how we do things tomorrow. On the international front, the catastrophe of the global debt crisis; collapse of commodity prices and worldwide recession in the early years of the 1980s, and then again in the mid-1980s, has catapulted industrial and developing countries alike into situations wherein basic economic adjustments must be made in order to survive. Likewise, the floating exchange rates have provided opportunities for the powerful nations to regulate their own and the economies of other nations through the group of Seven. In terms of economic growth itself, the major industrial countries were very divergent in their output performance at the beginning of the 1980s. While North America was struggling with negative growth, Japan was forging ahead with real GNP growth of well over 4%; Western Europe ranked roughly in between. Today, the differentials in growth rates have narrowed significantly. Japan continues to grow far more strongly at around 5%, but at least the United States and Europe are not trailing too far behind with their 3 to 4% rates of expansion. All this is helping to restore greater balance in the trade positions of the OECD countries, which to some degree contribute towards greater stability in the international environment.

3. But a disturbing trend is the assumption by the

advanced industrial nations, the new Seven Sisters, of the role of regulators of the world's economy. Within the developed countries themselves, interest groups are forming effective blockades against imports of palm oil from developing countries for example. On a broader scale, regional trading blocs are also rapidly emerging. In North America, we have the free-trade pact between Canada and the United States. By 1992, a possible "Fortress Europe" may emerge when the EEC forms a single European economic market bolstered by some form of financial union. And Eastern Europe might very well take a leaf from their western neighbours and form another European economic bloc. This trend towards polarisation will have far-reaching implications on economic behaviour worldwide, and may effect the economic survival of some.

4. There is also a proposal for some form of cooperation among countries of the Pacific Rim. Nebulous at the moment, it has nevertheless evoked a sharp reaction from the Europeans, who warned that they will not tolerate the formation of a trading bloc in the East. It would seem that everyone is jittery about everyone else, and everyone is denying that their particular bloc would become an economic fortress. Still, the question must be asked; why are these countries coming together to form richer and more powerful economic entities? Is it to help the world or to help themselves? When the European countries formed the EEC, a lot of countries lost their traditional markets for wool, mutton, beef, food grains and sugar. Can we believe the protestations of all these spokesmen?

Ladies and gentlemen,

5. Let me now turn to issues closer to home. 1990 will mark an important watershed in Malaysian history. By the end of next year, we would have completed the 20-year Outline Perspective Plan (OPP). This is a time for taking stock of our achievements and failures, and to set new directions for the decade ahead. It is precisely for this reason that the National Economic Consultative Council (NECC) was established to provide an avenue for Malaysians from all walks of life to contribute to nation building; to devise a unity of purpose in the thrust of policy directions after 1990. Supplementing this forum are a host of spontaneous conferences, seminars and dialogues, very much like this one, organised to refine ideas and contribute towards consensus making in an open positive way. Obviously the Government cannot incorporate everyone's ideas. But it will be better able to judge what and what not to do. On my part, I would like to share with you today, my own thoughts on some of the major challenges that lie ahead and on what needs to be done to ensure continued growth and prosperity for all Malaysians.

Ladies and gentlemen,

6. Without a doubt, the decade of the 1990s will herald a new era for the Malaysian economy, with new challenges and opportunities aplenty. The Mid-Term Review of the Fifth Malaysia Plan reckons that the economy will continue to grow strongly in 1989-90, after a surge in growth of close to 9% in 1988. Latest indicators suggest that this growth trend can be sustained, at least until the early years of the 1990s. Our optimism on the 1990s is founded on our current performance.

7. The current economic expansion has remained well on track and market confidence has since improved further. Demand for goods and services are robust, and reasonable gains in employment and output have pushed levels of resource utilisation higher than we had expected. Further, there are signs that the unemployment rate has begun to fall though at a pace slower than we would have liked. The growth of the manufacturing sector continues to be sustained at double digit rates; indeed, the average manufacturing capacity utilisation rate has risen to levels which we have not seen since the early 1980s.

8. It is well worth remembering at this stage that although recession brought numerous economic problems, a redeeming feature is the low inflation rate of roughly 1%. The obvious reason was low demand for goods and services. Now that growth has returned we are seeing higher inflation figures. Demand is clearly on the up-trend as affluence boosts the market for local as well as imported goods. Wage demands will push up the inflation figures further. We have a choice of either keeping inflation low by continuing to restrain demands or if we prefer to enjoy an affluent lifestyle then we must accept higher inflation. Whatever happens we must never allow ourselves to be trapped in a wage-price spiral. If we earn more either as wages or profits we must save some at least in order to finance new investments. This way growth will not be invariably accompanied by the kind of high inflation rates which will render our improved earnings meaningless. Here it is not only the Government which must be prudent, the people as a whole must develop a culture compatible with steady and sustained prosperity.

9. Looking beyond the first half of 1990, the outlook could still remain buoyant, so long as the major world economic blocs do not turn too unfriendly, and try to resolve their economic and political problems by taking it out of the developing economies. The achievement of the goal of balanced expansion and low inflation should still be possible. Towards this end, you can expect public policy in 1989 to be supportive of continued stable growth. Financial and regulatory measures will be taken to reduce the rate of inflation while the focus of Government expenditure will be on the provision of infrastructure needs of an expanding economy. We will need to establish an environment in which expectations of price changes in the Consumer Price Index or

CPI are small enough and gradual enough that they do not materially influence the pricing decisions of enterprises. The process of preventing unreasonable growth in CPI requires some degree of public understanding of the role they must play in keeping demand in line with potential total supply. It is a fallacy to think that taxes and regulations by the Government alone can do this. If there is a demand the private sector can always get around any regulation.

Ladies and gentlemen,

10. While the economic prospects will remain good, we should not allow ourselves to be lulled into a false sense of complacency. For one thing, these forecasts are premised on a "soft-landing" scenario for the world economy, with the major industrial economies acting with responsibility to reduce their fiscal and trade imbalances, and effectively co-ordinating their macro-economic policies to avoid another bout of recession or inflation, or both. These things are beyond our control. But, what is within our influence is how Malaysian entrepreneurs identify and seize a growing share of the ever increasing size of world trade over the next few years.

11. Notwithstanding the increasing polarisation of the world into major economic blocs dominated by the big powers, the opportunities that exist for profitable ventures in both exports and domestic value-added industries can still be tremendous. The EEC's single European market by 1992 will afford a barrier-free market of 320-million people. This assumes, of course, that the EEC is not bent on tearing down internal trade barriers only to build them externally against outside competitors. To guard against being shut out of a possible "Fortress" Europe, we should start to build our bridges and reinforce our alliances now. Here, I am thinking specifically of promoting vigorous cross-flows of investments. We will need to redouble our efforts to foster the flow of European direct investment in our manufacturing and tourism sectors. European investors must be persuaded to produce here for their own markets. And should opportunities arise, I would also encourage our own entrepreneurs to set up plants or buy into enterprises in Europe and elsewhere abroad, also with the purpose of gaining a viable foothold in these markets and benefiting from their policies. We have to be a fairly significant force in the economic life of America and Europe, while assiduously strengthening our ties in the East. To do all these we must have a global outlook and we must put in place the necessary economic foundations of our country.

12. We have to be realistic. Before any European or American investors would want to set up their plants in Malaysia, or for that matter, before the Japanese, the Koreans and the Taiwanese can be convinced to relocate their production bases here, they will want to see political and

financial stability, good infrastructure, productive labour, and living conditions of a reasonably high standard. Indeed, events in China lately clearly emphasised the rising importance of political stability in the arithmetic of potential investors. If what I have just enumerated represents a checklist of the conditions for international competitiveness, then Malaysia should measure up well. In fact, a recently published report by the Geneva-based World Economic Forum on international business competitiveness ranks Malaysia rather high in the Asia-Pacific region. Malaysia received good ratings for low inflation, reasonable domestic investment, administrative decentralisation and commitment to improving its infrastructure. Furthermore, the recently completed Article IV IMF Consultations Mission gave us the distinct credit for, and I quote, "effective economic management". It ends its concluding remarks by saying that their "discussions ..... have given them full confidence that this will be equally true in the future".

13. However, global competitiveness is a very dynamic phenomenon. It goes beyond merely having natural resources, skilled labour, ample domestic capital, good infrastructure and political stability. More important is how Government, business and labour cooperate and coordinate their efforts towards promoting the national cost advantage. Confrontation as a solution to the problem of human relation has been proven to be not only ineffective but actually destructive. The idea that only a show of strength can win for labour better compensation is outmoded. Wages in countries where such an approach is not possible have risen far higher than in countries where labour unions are powerful. It is imperative that a new *modus vivendi* be developed between labour and management. Government too must play a positive role in a triumvirate dedicated to national development in the interest of all the three. Labour-management councils within companies must be set up tasked not only with workers' welfare but the well-being of the whole organisation. It must always be remembered that an organisation that fails can bring no benefit to labour or to anyone else.

14. We are doing well today more because the depreciation of the ringgit against the currencies of our trading partners has made our products competitive. Had the ringgit remained as strong as it was it is unlikely that we will export as much as we do now, in terms of volume as well as earnings. Fortunately the depreciation of the ringgit has not affected our people too badly. This is because our inflation rate was low especially during the recession. Exchange rate changes are irrelevant as long as we can buy the same amount of goods with the same amount of money. Unfortunately the very prosperity brought about by the ringgit's competitiveness will make its effective devaluation felt by the people. With affluence we will want to buy more of imported goods and we are going to find that

in terms of ringgit these goods are very expensive indeed. Now we are going to feel the effect of the exchange rate and imported inflation. The only way out is to be more productive, the only true solution to remaining competitive. We cannot rely on our weak ringgit forever.

Ladies and Gentlemen,

15. Now a word about the Newly Industrialising Countries, or the Newly Industrialising Economies, or the little dragons and the little tigers. It would seem that some of us would like to be conferred with these titles invented and spread by the western media.

16. When the term NIC was first used by the media it was regarded as complimentary. It was literally a pat on the back for under-developed countries which had managed to drag themselves up by their bootstraps. Predictably many countries would like to be so categorised -- it is good for the national ego.

17. But the group of 7 rich countries soon latched on to this term to put a brake to these 'Johnny come lately'. By whatever means possible the developing countries must be prevented from becoming developed. Japan had caught them unaware. It became developed while the developed countries were still thinking about people who could only say "Ah-so". They, the developed countries, were not going to let anyone else catch them napping again.

18. And so countries were categorised as NIC and had their GSP privileges withdrawn, export quotas imposed, currencies revalued upwards and their so-called 'human rights' records scrutinised and invariably found wanting. 'Exploitation' of labour was 'discovered' and 'exposed'. Even the burden of helping other developing countries was pressed upon these NICs.

19. The effect is to stunt the growth of these countries by reducing their competitiveness and access to markets. The chances are that these countries will languish in their NIC status and never become fully developed.

20. Of course, Malaysia will one day reach the stage of development of the so-called NIC. We cannot very well stop growth just before that. In any case even before we reach anywhere near this stage of development what is there to prevent the rich countries from lowering the net and catching us. Presently US\$7,000 per capita is supposed to be the cut-off point. But already some magazines have said that with US\$3,000 per capita, a country should already be classified as an NIC. And with that all the pressures will be brought to bear.

21. The question is why should there be this intermediate classification, this categorisation as NIC? When the

rich countries were on their way up did anyone call them NIC and then put obstacles in their way? What right have the rich to arbitrarily take action against any country which is progressing well? Who gave them the mandate? Is there some international law or consensus that the rich are required to enforce?

22. The rich western liberals always talk about democracy. They are always saying that developing countries are not democratic. What is democratic about their arbitrary decision to categorise other countries and take action against them? Were these countries given a proper hearing? Who determines the criteria?

23. We do not want to be an NIC because we think there should be no such term. There should be no such categorisation and there should be no such discrimination. We do not need the title. Every country should be free to grow economically and be as rich as the richest or richer still. For so long as there is no unfair trading practices countries should be left alone to develop.

24. Already Malaysia has been invited to conferences of the NIC's, the near NIC's and the developed countries. We have refused to attend. We see in this an attempt to categorise us and to penalise us for our economic performance. We see in the NIC a ruse to stifle our progress.

25. The problem is that many Malaysians are very anxious to be called an NIC. If we accept the label then we must accept the strictures that go with it. Why are we doing this to ourselves?

26. Can I call upon fellow Malaysians to refuse the label NIC. We are interested in growing but they can keep the title and what goes with it.

27. We are going to protest about the unfairness of this categorisation as NIC. It is bad enough that in the process of solving their trading problems with Japan they have doubled our foreign loans. Now they are trying to justify future discrimination which would retard our growth and condemn us to being less developed than we are capable of.

Ladies and gentlemen,

28. I hope I have made myself clear and helped reduce the misunderstanding caused by my statement the other day. It is not that we do not want economic growth any more. It is just that we do not like categorisations and labels aimed at limiting our future growth.

Ladies and Gentlemen,

29. Allow me now to venture a little into the issue of the NEP, a subject which is, I am sure, of particular interest

to all of you, especially as 1990 approaches. There are critics who denounce the NEP as a failure and hold it responsible for all sorts of problems and difficulties faced by the country in recent years. For reasons best known only to themselves, these people have chosen to ignore the very substantial achievements brought about by the NEP in reducing poverty and correcting imbalances between the races. Within a short span of less than 20 years the NEP has succeeded in bringing down the incidence of poverty from nearly 50% of all households in 1970 to less than 20% by 1988. Granted, much more needs to be done to free the remaining 650,000 poor households from the grips of poverty. But, it must be recognised that important progress has been achieved, and this will provide us with a strong and solid foundation on which to ensure significant progress in the future.

30. At the same time, there are those who contend that the NEP has come close enough to achieving its objectives and, therefore, there is no more need for it. We have repeatedly mentioned the important role of political stability in promoting economic growth. The fact is that it is the NEP which has made political stability possible after the race riots of 1969. Such was the stability during the period of the NEP that actually economic growth is higher during the NEP years than before the NEP was formulated.

31. In Malaysia it would be fatal to ignore the economic disparities between the races and consequently to do nothing to correct these imbalances. Because we are stable now it is easy to think that the stability is unrelated to the NEP. The suggestions to drop the NEP altogether is the result of this kind of shallow thinking. We have achieved only 66% of the 30% target for wealth distribution to the bumiputeras under the NEP. The expectations of the bumiputeras have not been fulfilled. They may be at fault themselves but other factors outside their control were also responsible. It would be a mistake to dismiss their perceptions as irrelevant to the future prosperity of this country.

32. One of the reasons for the partial failure of the NEP was its use as a convenience and not as a policy. Both bumiputeras and non-bumiputeras regard the NEP not as an instrument of social and economic engineering but as a means to get rich quick. Thus while the bumiputeras invoked the NEP in order to get licences and contracts from the Government for themselves, their participation stopped there. The licences were sold to non-bumiputeras and so were the contracts. Having received a return on this sale they had nothing more to do with the actual business. Instead, they would demand for more licences and more contracts.

33. The non-bumiputeras for their part were only too happy to be freed from bumiputera active participation once the licences or the contracts were obtained. They were happy

merely to use bumiputera names and front men whose role were very limited.

34. It is true that there were bumiputeras who actively participated but these were the exception rather than the rule. The net result is a continuing serious weakness among the bumiputeras in business, particularly in project implementation and management. Their poor performances have caused massive losses to the Government brought about by delays and sometimes total failures to carry out contracts and other commitments. After nearly 20 years of the NEP they have neither credibility nor acceptance even among other bumiputeras. The private sector shun them. The wealth that some of them acquired and which many flaunt vanished under the slightest threat. The recent recession made nearly all of them bankrupt and those that are not are heavily in debt.

35. The NEP has been interpreted by both the bumiputeras and the non-bumiputeras as an exercise in pure wealth distribution. But wealth in the hands of those unable to manage it does not last. The more important thing is the build up of management skill in business. With management skill even limited wealth can be made to last and to grow. Without it wealth is soon dissipated. This is what happened with bumiputera individuals during the NEP.

36. If we are going to solve the disparity problem in the future, both bumiputeras and non-bumiputeras must help in making bumiputeras better businessmen. The bumiputeras must participate and the non-bumiputeras must insist that they, the bumiputeras, participate meaningfully in the management of companies and projects after they have obtained the licences or the contracts. Indeed, even if they do not get the Government contracts or licences for the companies they should be employed and put to work to contribute meaningfully to their keep.

37. The Government too will insist on evidence that bumiputeras are making knowledgeable and positive contributions before helping them with licences and contracts. It is not necessary for bumiputeras to harp on being 100% bumiputeras. Even if they make up only a minority in a business but their contribution is positive, the Government will look with favour.

38. While the goal of the 30% share of the economy for bumiputeras is important, it is much more important for them to have the skill to manage their new wealth. This, to my mind, is the area that all must focus on in the post 1990 period.

39. Restructuring is premised on growth, and growth must depend on a dynamic private sector. The Government has provided the necessary preconditions and stimuli; and will continue to do so. Much of what is necessary is already in place but the size of private investment needed annually

is massive. This year's expenditure on private investment will reach \$17.5 billion of which \$4.4 billion or 25% represent investment in the manufacturing sector. This annual flow of new fixed private capital spending will need to grow, consistent with GNP growth. Our priority must be to see to it that such flows do in fact take place in the form of both foreign and domestic investment outlays. Unless we succeed, our economic cake will not grow sufficiently to make restructuring significant. It is important that the objective to restructure society must be seen in the right context.

40. It is with this in mind that the Government has introduced various measures to liberalise and deregulate its management of the economy. We aim to create an attractive investment climate. Already the results are palpable. There is now a big surge in the number of applications from foreign and local investors to expand their capacity and to invest their capital into new projects, especially in the manufacturing sector.

Ladies and gentlemen,

41. At this juncture, it is rather premature to talk about the exact form and substance of a successor to the NEP. Such an important decision affecting the future of all Malaysians will, of necessity, take time. Consensus making is never easy. We must all be ready to contribute as much as possible in order to draw attention to our needs. An integrated and balanced economic policy after 1990 is still possible.

42. The post 1990 economic policy will continue to ensure that private initiative can firmly assume the role of the principal engine of growth now that the role of the Government will be downgraded. This will mean that the Government will continue to adopt a liberal approach in implementing its development policies and particularly its policies on equity ownership. I believe that this approach will enable the economy to generate the growth in employment and incomes that are so essential towards achieving the objectives of reducing poverty and restructuring the society. The size of the cake must be made to grow bigger and bigger so that we have more to distribute. Our ultimate objective remains the fostering of national unity through balanced and dynamic growth.

43. Still, it will be unrealistic to rely entirely on the market mechanism as the sole avenue for redressing the social inequalities in the economy. A certain degree of Government intervention will continue to be necessary to deal with these problems. The Government will therefore intervene where necessary by using its resources to assist the less fortunate sections of the society, in particular the poverty groups. Indeed, we will need to hedge against the vagaries of market forces with some compassion and

humanity. The future of multi-racial harmony and national unity in this country will still depend much on the Government's role in creating a "caring society". Enough care to protect the rights of the weak without depriving the risk takers of their earnings, has to be upheld.

Ladies and gentlemen,

44. On that note, I wish you every success in your deliberations and look forward to sharing your new ideas and insights, and to receiving your suggestions towards the formulation of the national agenda for 1990 and beyond. I now have great pleasure in declaring open the Tenth Annual Convention of the Malaysian Economic Association.