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TIME:

Distinguished Guests;  
Ladies and Gentlemen,

It is a pleasure for me to address this National Meeting on Malaysia organised by the World Economic Forum. I am pleased to note that much interest has been generated through meetings of these nature, culminating in a better perspective of the Malaysian business environment. To those of you from overseas, I bid you all a warm welcome, particularly those visiting Malaysia for the first time. I hope the beauty of our land and the friendliness of our people will make you feel that the visit has been worthwhile. The real test lies in the future -- on whether you will be back again, to visit and to invest.

2. It is timely that another Forum on Malaysia be convened since the last one was held in 1986. Timely, because Malaysia had made great strides since 1986. The impact of the self-imposed structural changes since 1983 have only begun to bear fruit; and in the last two years, Malaysia had joined the ranks of several Pacific Rim countries recording high growth rates that were last seen in the early 1970s. A seminar in Kuala Lumpur at this juncture, therefore, is useful to keep alive the dialogue that had started three years ago.

3. In the past few years, foreign investors have become increasingly better informed of Malaysia's potential as a business partner. Many have made significant progress in establishing manufacturing bases here. These businessmen and their investment testify to what this country can offer. For them, the seminar will provide an update of future policy direction, which no doubt will remain in their favour. For the new entrepreneurs, a seminar of this nature should provide the necessary information for them to make the decision to invest.

Ladies and Gentlemen,

4. The potential of our economy needs little elaboration for those associated with this region. Nevertheless, for our new guests, let me briefly reflect some lessons of the

last ten years. First of all, the 1980s witnessed two serious economic recessions. We emerged from them leaner but stronger, with an economic structure that was substantially different through deliberate policy changes. This structural change was achieved to some extent at the price of slower growth, which averaged annually at 5.4% in sharp contrast to the 60's and 70's, when Malaysia as a predominantly agricultural country enjoyed an enviable growth record of 8% per annum largely through expansionary Government budgeting. We learned the hard way that there is no such thing as a "free lunch" -- you eventually pay for your excesses. The sooner you realise this, the less severe the cost of adjustment. But adjust you must. Fortunately for us, we understood the danger signals and tightened our belts early. The result is clear for all to see.

5. Second, over the long haul, the Government is neither a sustainable nor an efficient source of stimulus to growth. The reliable "engine" is private initiative. Government should play the catalytic role in promoting and inducing private sector activity. It should provide the basic infrastructure facilities, and the stable political and financial environment to nurture the growth of long term real investments. The centre-piece of our adjustment policy was the substantial retrenchment of public sector expenditure, with a supportive monetary policy stance to restore external competitiveness and stimulate private capital spending. For us, this has been our winning "recipe" and we intend to build on this to further encourage more private spending on new productive capacity.

6. Third, although the emergence of increasingly diversified agricultural and mining sectors had served Malaysia well in the past three decades, our future lies in a broadbased industrial sector, augmented by a modern and competitive services industry, centred on tourism. The manufacturing side has since developed into one of the fastest growing sectors, not just dependent on the electronics and textiles industries, but increasingly becoming more broad-based and resource based, with encouraging backward linkages with the rest of the economy.

7. Finally, the Government's early commitment to reduce the twin deficits in the fiscal budget and external current account, I believe, saw us through the worst of times when for the first time in history, Malaysia recorded negative growth in 1985.

8. Malaysia has come a long way since. The success of early structural adjustment measures has enabled our economy to consolidate and then grow from strength to strength. While structural changes continue to take root, the economy has become more resilient to external shocks. The strategies adopted have begun to pay off in terms of sustainable growth with stability. Developments in the past two years bear testimony to this. The latest economic

indicators show that Malaysia is now poised for further rapid growth in the next few years.

9. Economic growth is now rather vigorous. Real GDP growth was 8.7% in 1988, the highest in this decade. This year's growth is expected to be between 7 to 8%. In 1990, growth will moderate to no less than 6.5%, which is nevertheless still high by any standard in today's world.

10. The current expansion is rather broad-based. Continuing agricultural expansion has wide ranging ripples which spread the benefits far and wide. The manufacturing sector expanded by 17.6% in 1988, though the rate will be moderately lower in 1989. Following close behind are construction, after a number of rather poor prior years, and the services sector. Agriculture and mining have continued to expand steadily.

11. On the demand side, rising real investments in recent years have generated a momentum all its own. This year, we are confident that private investment will increase by 19% in real terms. That is quite an achievement. Yet, not so long ago, many had written us off as a poor bet. Foreign equity approved by MIDA rose by 168% in 1988, and in the first nine months of 1989, by a further 80%. Reflecting this optimism, domestic investment has been playing a significant role, especially investments by the small and medium scale industries.

12. Rapid economic expansion will no doubt exert some pressure on prices. Inflation is expected to be higher, but at no more than 4% in 1989. It was 2.5% last year. Although this is low by international standards, it nevertheless warrants close Government attention. In this context, the primary role of monetary policy will continue to maintain stable financial conditions, conducive to long term price stability.

13. On the external side, the recent weakening of commodity prices has been partly compensated by continuing high exports of manufactured goods. However, rapidly rising imports, mainly of investment and intermediate goods, meant that the trade surplus would moderate significantly. Of some concern is the growing services deficit, which would "eat up" most of the surplus expected this year in the trade account. The higher invisibles payments reflect the larger freight and insurance bill from high imports, and the larger payments of profit and dividends arising from a buoyant economy. While it is comforting that the current account still shows a modest surplus, we are nevertheless determined to address the problem of the growing invisibles deficit. Central to this is the promotion of tourism. 1990 is Visit Malaysia Year. More will be done to promote inbound tourism. The unexploited tourism potential is still very big and indications are that tourism and related industries will have high growth rates in the 90's.

14. The capital account of the balance of payments remains strong. Overall, reflecting strong capital inflows, our international reserves should rise above US\$7.5 billion by the end of the year. The overall external position should remain comfortable this year.

15. Good external debt management has resulted in a decline in our national external debt to just about US\$16 billion by the end of 1989. This reduction is due largely to the continuing prepayment of our debt since 1987. The impact of these prepayments would have been even more significant if not for the increase in the ringgit value of this debt following the sharp revaluation of key currencies in recent years. Consequently, the debt service ratio will fall below 12% by the end of 1989, and below 10% in 1990.

16. It is in the fiscal area that the adjustment policies in the past five years have made the most direct impact. The Federal Government's current budget has rebounded firmly since last year to record a surplus position, albeit still small surpluses. This turnaround appeared a year ahead of schedule.

17. Finally, unemployment has begun to show clear signs of moderating, as indicated by reports of labour shortages in the agriculture and construction sectors. Much of the unemployment is structural in nature and will require some time to resolve.

Ladies and Gentlemen,

18. In the past couple of years, investment opportunities in Malaysia have increased in scope and value, especially in the manufacturing sector. The political, social and economic environments are stable and the infrastructural facilities, good. Over this period, many investors from many nations have taken advantage of our offer as a profit centre and a competitive springboard to export from. We want more to come as we have the capacity to welcome more to bring with them their technology and marketing expertise to combine with Malaysian resources and labour to yield high profits for mutual benefit. To complement this role, we can now offer new tax and other incentives for foreign multinational companies to establish their operational headquarters for the Asia-Pacific region in Malaysia. We are committed to make Malaysia an attractive and less costly place to conduct business. Furthermore, the quality of life in Malaysia is high, and the cost of living relatively low.

19. There is a third area which needs to be addressed -- large invisible deficit. The trade account would need to generate a surplus of about US\$4 billion annually just to meet the services deficit in the current account. Malaysia's strong appetite for foreign services reflects partly the need to support the production and export of

goods and partly the rising incomes and living standards. While this traditional services deficit is likely to remain a prominent feature in Malaysia's balance of payments in the 1990's, we have all the necessary ingredients to step-up efforts in promoting a new role as a competitive services provider to complement its role as a reliable producer of goods.

20. We are determined to bring about greater import substitution of services from abroad as well as the export of services. This strategy will take many forms. We are rapidly expanding our shipping and airline fleets, and insurance services, including upgrading and expanding our key ports of call, both air and sea, in order to offer more efficient transportation related services. This is an area where we are competitive in the international markets. Similarly, in the area of communications, we have invested substantially in recent years to provide domestic and international links that are modern and in keeping with the state of the art. We have privatised our telecommunications operation resulting in increased efficiency and rising productivity. You will find our telecommunication links second to none in Asia.

21. Then there is a whole host of financial, brokerage and professional services which are increasingly being internationalised. Those of you who have business links with us will know that our financial services, such as banking, insurance and brokerage, are modern and highly professional. Once separated from Singapore, our own stock exchange will be the only exchange in the world which offers a solid range of good plantation stocks. What is more important is that access to our exchange is free, much like London, New York and Tokyo. In Asia, the Kuala Lumpur Stock Exchange is one of the larger exchanges which encourages international participation; a market which is liquid; a market that is getting more and more professional with the recent corporatisation of the stockbroking industry. We actively encourage reputable foreign stockbroking companies to take equity in joint ventures with local concerns.

22. We also have a thriving commodities exchange, in both physical and futures. We successfully manage the only palm oil exchange in the world. This exchange is professionally run and regulated by an independent Commission very much like in the United States. This exchange is being developed into a regional commodities exchange, with contracts trading in rubber, tin and palm oil. Soon, this list will be expanded to include other commodities and the feasibility of financial futures is being evaluated. In Asia, Malaysia's capital market is one of the more developed. We had a head start and a long list of measures are being implemented to widen and deepen this market to be one of Asia's finest.

23. Very few know this; we have the only secondary market in Asia for long-term mortgage bonds. It is still an infant

but viable market. Soon, a professional rating company would be established and we hope to do so with assistance from a reputable international rating company. Many exciting things will happen in our capital market in the next few years. I just wanted you to be aware of these developments so that you can be sure that our strategy to promote foreign investment goes beyond the mere physical investment of plant and machinery. In this modern world, we realise the importance of an efficient, modern and competitive financial and capital market sector to better serve foreign investors. In the final analysis, we are offering a package deal -- a deal that goes beyond the physical act of investment.

24. We have also embarked on an ambitious arrangement to promote tourism into a leading growth sector. The Government is committed to this effort. This area poses a positive challenge in the years ahead for Malaysia, as the tourism industry world-wide is expected to boom in the next 20 years. Although Malaysians spend large amounts sightseeing abroad, the tourism strategy is not directed at reducing leakages in the form of foreign travel, but rather in increasing our capacity to attract and absorb more and more foreign tourists to spend in Malaysia. In this respect, Malaysia is beginning to exploit this potential.

25. The necessary steps have already been taken to develop tourism. The promotion of tourism is set in the context of a balanced promotion to attract domestic travellers, regional tourists and long distance tourists. Decisions have been taken to improve the appropriate infrastructure for travel between Malaysia and its neighbours, as well as to provide quality accommodation and recreation facilities in Malaysia.

26. In developing tourism facilities and products, Malaysia will go alone if necessary, but sees clear benefits in joint-ventures. Our package of incentives on tourism is possibly one of the most attractive in the world and certainly no less favourable than those offered to the manufacturing sector.

27. To further boost the tourist industry the Langkawi Islands have been made a tax-free area. This means not only availability of tax-free goods for tourists but investors may import various construction materials, vehicles and other goods at prices substantially lower than in the general customs area. The island of Labuan is to be made a tax haven where foreign companies will be accorded the same facilities as the well-known tax havens elsewhere.

28. The importance in the development of the services sector is reflected in recent pressures for a multilateral framework to govern services, as is the case with goods. Such an internationally agreed framework is viewed as necessary to act as a bulwark against protectionism,

bilateralism and unfair competition. For Malaysia, we are actively involved in the multilateral trade negotiations following the Punta Del Este and the Montreal Declaration. However, while we are aware of the benefits to be accrued from the liberalisation of services, we are also conscious of the priority that would be given to strengthen the domestic services sector.

29. In this respect, while we would welcome foreign multinationals to participate in our services sector, it is desirable that there is a firm recognition and mutual understanding of our national development needs and aspirations. In developing its services sector, Malaysia will not protect the inefficient activities; and if the liberalisation of services will yield clear net social and economic benefits, Malaysia will go along with it.

Ladies and Gentlemen,

30. Malaysia now provides a package of exceedingly attractive investment incentives in both the manufacturing and selected services sectors. These incentives are complemented by the prerequisite infrastructure support, including efficient and expanding money and capital markets. These will be combined with a disciplined workforce. We will also not use our exchange rate just to give Malaysia the competitive edge. Our exchange rate is determined in the market place. We feel that our present rate is correct for us. We will try to ensure that it is stable, but this task is not an easy one, given the volatility of the major rates. Our competitive edge will come from our comparative advantage in natural resources and our productive labour force. We encourage flexibility in wage determination and a wage structure which encourages productivity, in order to remain competitive internationally. What is important is the continuing need to inculcate a healthy work ethic and a positive attitude to nurture the growth of rising productivity. Only in this way can Malaysia maintain its competitiveness, independent of movements in the exchange rate.

31. We approach 1990 on a note of confidence. As a growing economy, we are convinced that the region provides the centre of growth in the next decade. We stand ready to move forward to the next stage of economic development. And, we do so not alone, but through the forging of realistic partnerships. I hope you too will take the position that there is a good range of business possibilities in Malaysia. There is ample room for all who are interested. As pragmatic bankers, businessmen and investors, I am sure you know precisely what you are looking for in Malaysia. I hope you can find them so that we can work together for our mutual benefit.  
Thank you.

