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(PRIME MINISTER)

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TIME:

Tan Sri Ahmad Sarji,
President of The Harvard Club of Malaysia;
Excellencies;
Distinguished Guests;
Ladies and gentlemen.

It is indeed a pleasure for me to be here this evening. I wish to express my thanks to the Harvard Club of Malaysia for inviting me to deliver this dinner address, the topic of which is "Post 1990 -- Economic Policy of Malaysia" which is much discussed of late. There have been claims that potential investors are postponing their strategic decisions to invest here until such time that the post-1990 economic policy is unveiled in clearer terms.

Ladies and Gentlemen,

2. Let me say from the start that I cannot provide the absolute clarity that certain quarters seek on the Post 1990 economic policy simply because we are still in the process of formulating it. I do not want to say anything that will bind the Government or that will cause confusion in the private sector as well as the Government machinery.

3. However I would like to explain the process we adopted this time. When the New Economic Policy (NEP) was formulated 20 years ago there was inadequate consultation, particularly with those who were opposed to or were inherently critical of the Government. As a result the NEP came under heavy criticism and attack.

4. The critics may think they know better but really they were looking only from their own narrow angle. The Government had to take everyone's needs into consideration. We doubted whether the critics really know what it takes to formulate an economic policy that is acceptable to a majority, if not to everyone. Certainly we do not think that they could agree on the political aspects of an economic policy in a multiracial society where there was unequal economic development.

5. It must be remembered that the NEP was almost the direct result of the race riots in 1969 - a mere 12 years after independence. It was therefore not just a solution to an economic problem but it was as much, if not more, a solution to a serious political problem.

6. Economics cannot be totally divorced from politics. It was the extreme division between the rich and the poor that led to the birth of socialist and communist political theories. Today we know that socialism and communism have both failed. But after the birth of socialism and communism, capitalism too was forced to change in order to survive. The capitalism we see today is but a shadow of its former self.

7. The extreme exploitation of man by man in the feudal age and the early days of the industrial society, under attack by socialists and communists, had to undergo drastic modifications. A more caring society resulted in the rights of workers being recognised, the birth of an intermediate class of people, and more equitable opportunities. The extreme disparities between rich and poor in the pure capitalist society were drastically reduced. Certainly the servant-master relationship between workers and employers was eliminated.

8. Perhaps if absolute capitalism was allowed to continue economic growth would have been faster. But it could not last. The extreme disparities of the pure capitalist system would have resulted in political upheavals, and whatever economic gains from it would be destroyed and destroyed completely. The socialist and communist revolutions were in fact the reaction of societies of extreme disparities which capitalism created. As we have seen the pendulum swung from extreme disparity to an attempt at extreme equality. And this attempt at extreme equality is at the root of the failures of socialist and communist societies in Russia, the Eastern bloc nations of Europe, China, the African continent and the Latin American states. Man may be born equal but absolute equality between man and man can only result in reduction to the lowest common factor, that is in poverty.

9. It is important to remember this historical background in order to understand the Malaysian experiment at social engineering. Had Malaysia opted for socialism or communism, the disparities within the multiracial society of Malaysia would have been removed but the economy would have been destroyed. On the other hand if Malaysia had ignored the disparities and opted for unhindered economic growth it is more than likely that the kind of stability we enjoy now would not be achieved. Instead the race riots of 1969 would be repeated, and economic growth of the kind we have today would have been impossible to achieve.

10. One way or the other, there is a price to be paid. We think that we pay a lower price with the socio-economic engineering of the NEP against a very much higher price if we ignore racial sensitivities and go exclusively for economic growth.

11. Still the Government feels that it does not have a monopoly of wisdom. And so in order to formulate the economic

policy of the nation after 1990 the Government has brought an equal number of critics and supporters together under the National Economic Consultative Council (NECC) so that they can formulate by consensus the post-1990 policy. Consensus is necessary because we are trying to avoid being unfair to any particular group. Otherwise the Government can formulate the policy by itself, for the Government also has considerable support.

12. But as you know the DAP and the Chinese educationists opted out. They criticised the Government formulated NEP but their opting out means they have no formula which can draw less or no criticism from the public. These people are only good at criticising but are quite incapable of anything positive or constructive. While they condemn the Government for not listening to their views, it is obvious that they are not prepared to listen to the views of others. Much less are they willing to adjust their demands in recognition of the rights of others to make their demands. They seem to claim that they have a monopoly of wisdom. By opting out they feel they can be free to criticise and condemn whatever the NECC decides and, of course, whatever the Government will eventually formulate. They regard their own narrow communal political objectives as more important than national interest.

13. Since the NECC cannot achieve a consensus, the Government is not bound to accept all its recommendations. We are back almost to square one where the Government has to formulate and devise the economic policy after 1990 almost by itself.

Ladies and Gentlemen,

14. The NEP is an experiment in social engineering. When it was drafted we knew our goals -- poverty eradication and the restructuring of society to remove the identification of race with economic functions. But we had no experience and no models to fall back on in order to achieve these objectives. We had already rejected socialism and communism. We believe in a free market system, which means that we must submit to the constraints imposed by market forces which tend to increase disparities rather than reduce them. We had to accelerate the growth of one segment of the society without causing a sense of deprivation of the other segments. It was altogether a tall order for a Government and a bureaucracy which was, until only 12 years ago, a purely administrative set-up.

15. The pundits cannot be blamed if they predicted regression for Malaysia. We know now that the greatest socio-engineering projects, socialism and communism, were even then failing. Here was a set of amateurs tasked with the implementation of a massive socio-engineering project.

16. It is no wonder that many of the things they did failed and failed miserably. Since nationalisation was unacceptable, laws were passed for the restructuring of companies in

order to give bumiputeras a stake. The Industrial Coordination Act (ICA) was promulgated. Under its aegis the Foreign Investment Committee (FIC) and the Capital Issues Committee (CIC) were set up. State economic development corporations sprouted out in every state and they in turn sprouted hundreds of subsidiaries, joint-ventures and sub-agencies. Corporations of all kinds were formed -- from heavy industries to bakeries. The PNB was set up to buy shares and sometimes buy whole companies.

17. A lot of people who were strangers to business suddenly found themselves running multi-million dollar trading companies, manufacturing companies and construction companies.

18. Civil servants unsure of what to do yet anxious to achieve the objectives of the NEP sometimes became overzealous. They and the Government were not helped by the bumiputeras and non-bumiputeras making use of the NEP for their own selfish purpose. Thus bumiputeras obtained licences and permits and shares which they promptly sold to the non-bumiputeras. And non-bumiputeras abetted them by buying licences, by using bumiputeras as fronts. In most cases bumiputeras were not given first-hand experience and knowledge of business management. They were urged to get the licences and forget about using them. In many cases all the bumiputeras learnt was how to use their status to get more and more licences.

19. Clearly many sins were committed in the name of the NEP both by the bumiputeras and the non-bumiputeras. Malaysia should really stagnate or regress because of the NEP, the way the socialist and communist countries regressed.

20. But did Malaysia regress? The answer is a resounding no. Economic growth actually accelerated with the NEP. The growth in the 1970s averaged 7 to 8%. In the 80s after a short period of recession caused not by the NEP but by worldwide depression, the economy recovered and went on to record 8% growth.

21. To-day Malaysia is placed 5th among the developing economies. Only 4 out of over 130 countries throughout the developing world are ahead of us.

22. The Malaysian economy is booming now. Investors are coming in droves. Even locals, grumbling all the time at the unfairness of NEP, are investing more and making hundreds of millions of dollars in profits.

23. The small men are doing well too. The number of restaurants, big and small, have increased and are well patronised. Private cars jammed the streets. Luxury boutiques abound. More Malaysians are travelling all over the world. Domestic tourism is big business. Crowds throng the numerous shopping complexes. New Years and other holidays and festivals are lavishly celebrated.

24. The fact is that the NEP has not been a hindrance to economic growth. Countries without the NEP have not achieved what Malaysia has achieved. Countries with homogeneous populations are not better off than multiracial Malaysia.

25. In a recent article in Time Magazine, a journal not noted for being very kind to Malaysia, Jay Branegan wrote of this country under the heading " A Working Racial Bias". Apparently even the supervisors of international moral behaviour are admitting that Malaysia's NEP work. With a growth of more than 8%, 20 years of stability, and relative racial harmony, few critics can say otherwise that is, of course, if they are willing to face facts.

26. But where do we go from here. Should we continue with the NEP since it has not been so detrimental to Malaysia's economic growth and political stability. Or should we put a stop to it? Should we say enough?

27. Malaysia is an economic success but everyone knows that the NEP has not achieved the arbitrary target that was set by the nation. Thus bumiputeras, by any measure, are still very far behind the other communities. Though their complaints are more limited, and this is because they feel they have a Government that will look after their interest, they are definitely still unhappy with their lot. They still see no egalitarian society in which they get their share of the good things of life. With this in mind it would be foolish to say that there is no longer a need for some socio-economic engineering.

Ladies and Gentlemen,

28. Malaysia is a rich country. There is plenty for everyone. Giving the bumiputeras a share has not done absolute damage to the economy or to the prosperity of the other communities. Let us therefore begin by admitting that we still have to design a policy that will further reduce the racially related disparities in our society.

29. First let us examine the failures of the NEP so that we will not repeat them. The thrust of the NEP was wealth sharing. It was simply assumed that if you give the bumiputeras a 30% share of the wealth then restructuring would have been achieved. And so the bumiputeras were sold shares equal to 30% of the total share holdings -- or at least this was attempted.

30. But possession of wealth without the ability to manage wealth will not make for a permanent or stable solution to the problem of racial inequity. As the famous saying goes "A fool and his money is soon parted". Anyone who is not able to manage his wealth is soon made poor.

31. Thus when the NEP put wealth into bumiputera hands without first training them in the management of wealth, the result is a foregone conclusion. Without the Government

controlled agencies such as the PNB and Pernas, the NEP would not have achieved the 19% bumiputera equity but probably only 4%. Given time that 4% too could disappear as the bumiputeras dissipate their assets.

32. Therefore more important than the mere distribution of shares and other forms of assets is the training in ethics and management. If any kind of social engineering policy is to be devised, then that policy must lay strong emphasis on ethical and management training.

33. The Government has already started by including in the school curriculum a subject called "living skills" to prepare Malaysians to adapt to an industrialized society in a free market system. Knowledge of management is being taught in institutions like the ITM and the universities. The Universiti Utara Malaysia has been specially dedicated to management. Hopefully the bumiputeras will learn the rudiments of management in these institutions. They must not make the mistake that with their degrees or diplomas they have become fully qualified managers. It takes more than book-learning to become managers.

34. But the private sector especially the non-bumiputera private sector must play their part too. They must take pains to train their bumiputera partners and executives in the art and science of management. The bumiputeras must have their management skills upgraded by precept and by example. They must accept the risks involved in business, the need to control spending and the appreciation that for every cent spent they must earn a return commensurate with the expenditure.

35. Non-bumiputeras should not use their bumiputera partners as fronts, useful only in interacting with Government officials, getting licences and permits.

36. The bumiputeras for their part must learn that there is no easy way of getting rich quick. If you do not earn your money, it is not going to stay long with you. And restructuring is not intended to be a transient thing. It must be something durable.

37. Ethics is important. Wealth tends to corrupt, particularly easy wealth. We need to have some ethical code for bumiputeras as for others. Far too many bumiputeras have succumbed to the corrupting influence of easy money. They should become wealthy but they should be made to earn every cent of it. The non-bumiputeras should not help in the corruption process and the bumiputeras must learn to resist the corruption of easy wealth.

38. What we want really is not 30% of the wealth of this country for the bumiputeras but 30% of Malaysian managers and entrepreneurs to be highly skilled and ethical bumiputeras. With this percentage bumiputeras can acquire the wealth and retain it with minimal help from the Govern-

ment.

39. The actual policy after 1990 cannot be spelled out with clarity tonight. It cannot, simply because we have not formulated it. But the Barisan Nasional Government has a track record. We have implemented the NEP without destroying the Malaysian economy. We floundered around at first but even then the effect was minimal. With the years we became wiser. We modified our approach and we altered or stopped the more damaging operations. Faced with a recession, we responded with policies which helped with recovery yet without abandoning the NEP.

40. We are quite adept. One thing that I can assure you is that we are not going to destroy the economy because of any ideological commitment. We do have some experience and ideas about how to reduce racial disparities and eradicate poverty without upsetting economic growth.

41. For a long time Malaysia is going to need foreign investment and technological know-how. We are not going to do anything to scare away foreign investors. Their investments will be safe here in Malaysia, at least for as long as the Barisan Nasional remains in power. We have shown that we can be quite liberal and receptive to ideas.

42. Local investors too need have no fear. The level of local investment during the NEP period is quite high. We were willing to listen and to make adjustments. The ICA was modified in order to accommodate local businessmen. If we go by the number of local companies and their performances, I do not think anyone can truly claim that the NEP is the bane of the local investor. As a matter of fact by complying with the NEP, the local non-bumiputera entrepreneurs have done extremely well. The old family companies have now given way to the limited public companies and bumiputera capital is not something difficult to raise when companies are listed.

43. Any new policy the Government formulates will take into consideration the need to get the support of the local businessmen and entrepreneurs. They and the foreign investors are the geese that lay the golden eggs. We are not about to slaughter them.

44. The Barisan Nasional Government is dedicated to a rapid economic development of Malaysia. We have shown that we care for economic growth. We do want wealth distribution and bumiputera participation in management. We do want the bumiputeras to catch up and have their share. But it would be meaningless and a contradiction to destroy the economy in order to give them their share. It will be sharing nothing. We will therefore ensure that the economic growth is sustained while we attend to the twin objectives of poverty eradication and restructuring.

45. We are not in a hurry. We want the bumiputera share to

be lasting and to grow on its own accord, even when no more help is given by the Government. It is a tall order. But we think we can do it without too much disruption.

Ladies and gentlemen,

46. I have tried to describe the weaknesses in the implementation of the NEP and how we think we can correct them. I have pointed out the need to upgrade bumiputera management skills and ethical standards. Any new policy must reflect the appreciation of these important factors. We will not force the pace but the non-bumiputeras and the foreign investors will be doing themselves a good turn by helping the bumiputeras achieve their goals early. The sooner we achieve our goals the sooner will the need for special treatment cease.

47. It is important to remember always that there will be a price to pay, one way or the other. We think the price will be much lower if everyone accepts the need for socio-economic engineering and helps to make a success of the project.

48. 1991 will not bring a catastrophe. The Government will not allow any radical changes to take place that will destroy all that the Government had carefully planned and achieved. We are not about to become suddenly irresponsible and indulge in some hare-brained scheme. That much I can assure you. The economic policy after 1990 will not involve any fancy foot-work. It will be a well-thought-out plan to achieve economic growth with equity.

49. I am afraid that at this point in time I cannot be any clearer about the post 1990 economic policy. But I have said enough for everyone to make an assessment of the kind of attitudes and approaches the Government will make. We have lived with the NEP for twenty years. If Malaysian performance is anything to go by, the NEP is not too damaging. It irks a few people because they could not get what they want. But if they reflect they must admit that even without the NEP not everyone will get what they want. The bumiputeras too did not get all that they wanted during the NEP period.

50. If in this country, the locals and the foreign investors could live with the NEP for twenty years, they surely can live with any policy that this Government will devise for the post 1990 period. I say this Government, this Barisan Nasional Government deliberately, because you know this Government and you know its pragmatism and its record.

51. We care for this country. We want this nation and its people to prosper. We want to share prosperity. Getting 30% of an impoverished economy will be meaningless to the bumiputeras. They are as much committed to economic growth as everybody else, as is the Government.

52. So even if I cannot spell out tonight the exact details

of the economic policy in the post 1990 period, there is no reason for anyone to worry. If anyone is hesitating to invest in Malaysia, he is wasting his time and probably missing his opportunity. The economic policy that we will adopt in order to eradicate poverty and to bring the bumiputeras into the mainstream of the nation's economy will be as well thought-out, as positive, if not more so than the present NEP, the policy that has resulted in 8% average growth for Malaysia and has put it among the top half dozen countries of the developing world.

Thank you.