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EVENT: "THE 1994 CHINA SUMMIT MEETING", IN BEIJING, CHINA THE
SOCIALIST MARKET ECONOMY OF THE PEOPLE

VENUE: BEIJING, CHINA

DATE: 11 MAY 1994

TIME:

Distinguished Guests;
Ladies and Gentlemen,

Let me begin by thanking the organisers of this important meeting for inviting me to be here and to address this meeting today. It is a great honour and a great privilege.

2. Also, like a good Asian, let me express my apologies if anything I say is incorrect or causes offence. Perhaps above all, I must express a great sense of humility.

3. I have been asked to talk on the subject of "The Socialist Market Economy of the People's Republic of China: the ASEAN Perspective." First, how would I critique the Chinese development objectives and experiences? Second, what advice do I have, as the leader of perhaps the second most dynamic economy after China, for the Chinese leadership on the economic path they have chosen? I have also been asked to focus my address on the lessons of the development experiences of Malaysia and the ASEAN nations as they relate to China's present situation. Lastly, what is ASEAN's position on China's aspirations?

4. I cannot of course speak for ASEAN. Yet I feel reasonably sure that my views are very close to an overpowering consensus of the thinking not only of ASEAN but also of all of East Asia, stretching from the Korean Peninsula to the farthest reaches of the Indonesian archipelago.

5. As Asians we intuitively understand what China is attempting to do. We intuitively understand why China is doing what it is attempting to do. We intuitively understand how China is going about the entire process of revolutionising its society and building towards a place of pride and comprehensive prosperity for its people in the twenty-first century. Perhaps this is because almost all of us are trying to do the same:-

- * in the best way we know how;
- * given the complexities of our own specific situations;

* given the enormous obstacles that stand in the way;
and
* the incredible opportunities that are before us.

6. In a sense, therefore, even though I cannot speak for ASEAN, I believe that in much of what I say I will in fact be reflecting the view of most East Asians.

7. Let me also begin by saying that in all humility I will not critique China's policies and I will offer no specific advice to the Chinese leadership. As an individual, I have of course followed with a great deal of interest over the last 60 years of my life the great events occurring in and around China. I have read substantially about China's last 2,000 years. But I am by no stretch of the imagination an expert on China.

8. I cannot imagine that I know more about any Chinese policy than the Chinese leadership and its wealth of advisers.

9. I also come from a country a part of which was under authoritarian colonial rule for more than five hundred years. For a very long time, most of what is now Malaysia lived under a system in which we had to ask for 'advice' from the imperial power before we could do anything. Under this system of 'advice', all advice solicited or unsolicited had to be followed. You will understand why I am reticent about outsiders giving advice -- even when asked for. Perhaps there is some virtue in not doing unto others what others have done unto you.

10. In the 1970s and 1980s, my country was villified and ridiculed for our New Economic Policy. This Policy was aimed at eradicating poverty and restructuring our society so that we would not only have rapid growth but also income and ownership restructuring and greater social justice. We were constantly badgered and advised to give it up. We were constantly scolded even by people who were themselves busy redistributing wealth in forceful ways, for example by nationalisation or affirmative action.

11. We tinkered. We fine-tuned. We amended. We changed what did not work. We went fast track. We slowed down. And in the end, after it had achieved much of what we aimed for, we decided not to extend it but to formulate a slightly improved version which we called the National Development Policy. But to the outsiders, we were stubborn. We were obstinate. We were recalcitrant. We refused to listen and to accept good advice. And of course they say in the tone of the 'I told you so' critics that we had failed and been forced to change our course.

12. Still after the undeniable results that have been achieved over the 20 years of our New Economic Policy, some have quietly acknowledged that we are one of the very few

examples of societal restructuring which others should follow. Many countries are now advised to look at Malaysia's example of marrying dynamic and sustained economic growth (an average 6.7 per cent over two decades) with massive wealth redistribution and dramatic advances towards socio-economic egalitarianism between ethnic and social groups.

13. If I may, I would like to tell another story. In my country's history, it is the Western countries which fought against giving us freedom and democracy. In the last couple of hundred years the only authoritarian rule we have known have been British authoritarian and, for some, totalitarian rule, and for a short period, Japanese totalitarian rule. We have been extremely fortunate that since our independence 37 years ago, we have been a successful democracy. If you care to look around, you will notice that the political switch from authoritarian Governments to independent democratic Governments is not easily achieved. If you throw in a multi-racial population, the switch may not be achieved at all.

14. Most assuredly, our democracy is far from perfect, which is why we have specifically identified advance towards a more liberal democracy as one of the nine modernisations of our generational plan which we call Vision 2020. But we are not weighed down by 'gridlock'. For almost all of our 37 years of independence, we have had stable and strong governments repeatedly elected by the people. With strong Governments we have been able to concentrate on doing what is right rather than what is popular. We have had leadership that is prepared to lead, that has always had to satisfy the people but never to pander excessively to the gallery. Fortunately, all our nine democratically elected central governments have never had to be pre-occupied with short-term political considerations at the expense of long-term welfare. We do not have a democratic system where the public good has to be sacrificed to powerful lobby groups. We are unashamedly community oriented. We do not believe that the rights of the individual come before the rights of society. In our elections, large percentages turn out to vote. Our majorities are not silent as in some western democracies. We do not have constant, ultra-combative, confrontationist politics. There has always been a strong consensual impulse. Our press do not believe that it is their job to hound politicians, to tell lies and to adopt at all times the superior stance of king-makers. The people want enough Opposition Members of Parliament so that the Administration is kept on its toes. In several states various Opposition parties have been voted into power. But few want them in power in the central Government. The ruling coalition party has always been broad-based, bringing together the widest range of political parties, ensuring the widest ethnic and geographical representation.

15. But a world which tolerates and even encourages ethnic cleansing in Bosnia never tires of pointing out the inadequacies of Malaysian democracy. They seem unhappy that we are not assailed by the violence and instability that characterise most new democracies. They would love to see our Governments and policies change with each election, so that the uncertainties would deter investments for economic growth.

16. For what it is worth, I believe that whilst my country's success could not have been achieved without a democratic system of government, it would not have been possible without our particular form of democracy. Had we simply taken -- lock, stock and barrel -- a different democratic system that might have worked well elsewhere, we might today be in deep trouble. I am certain that had we adopted the democratic system now in place in some western countries, you may not have the Prime Minister of Malaysia in front of you today. He would be too busy dealing with riots and bombs in the Malaysian capital, assuming that a country called Malaysia still exists.

17. My country has had to listen to a lot of advice on how to run a Western-style democracy from the day it was born as a democratic independent state, sometimes, ironically, from experts who only the day before had argued that we should not be given freedom and democracy because they were convinced we were not ready. Democracy becomes urgent only when territories have to be given up. Otherwise good old authoritarian government should go on.

Ladies and gentlemen,

18. I have said that we were lucky to have been born a democracy and to have evolved a productive Malaysian democracy. We were also lucky in that, unlike China, we have more or less always had a market system. Even so, ten years ago we started a process of further market reforms which have transformed us from an agricultural, commodity-exporting economy into a thriving industrial country. Only ten years ago, when we started our latest round of reforms, manufactured goods constituted only 25 per cent of all our exports. Last year, manufactured goods accounted for 71 per cent of a much-increased export volume. We are the 19th biggest trading nation in the world.

19. We are now receiving reluctant accolades for our reforms of policy and practice over the last decade. Still the advice keep pouring in, mostly gratuitous. Fortunately, through a mixture of good fortune and good judgement -- more good fortune than good judgement -- perhaps, we appear to have chosen the right advice.

20. Still, it is always wise to be open minded, to be eager to learn from the experience of others, to seek outside advice. But no amount of intellectual brilliance and

sincerity can overcome the iron law that in order for policies and actions to work they must always fit the specific conditions within which they have to operate. God helps China if China were to adopt policies which can perform miracles elsewhere but which would probably be disastrous for China. It surely must be the task of China's leaders and intelligentsia themselves to pick and choose from the methods of other countries which could possibly fit in with the conditions of China. The best thing that others can do is to be open to the Chinese about their own experiences, good and bad, i.e. if they wish the Chinese well.

21. But I suspect the Chinese are not going to be allowed to do that. Already we see the Chinese being badgered and hectoring to conform to systems and values which have been devised elsewhere for the benefit of different people. It would be a pity, for the world does not need an isolated and bitter China.

Ladies and gentlemen,

22. Let me now turn to the third task I have been asked to fulfil.

23. I have said that although I do not even speak for ASEAN, my views may well reflect that of East Asia, eight of whose economies (Japan, China, the Republic of Korea, Taiwan, Hong Kong, Thailand, Malaysia, Singapore and Indonesia) are now commonly regarded as constituting 'the East Asian Miracle'. The reason is crystal clear and natural. Despite significant differences between us, all eight of us share the same basic perspectives. We actually present only one model of economic development.

24. The term 'socialist' means different things to different people. Whatever the subtleties, there is no doubt that China's 'socialist market economy' rejects laissez faire capitalism, the extreme type of market economy which regards the government as extraneous. With the possible (and only possible) exception of Hong Kong, all eight of us do reject laissez faire capitalism. We each have applied socialistic central planning and controls to some degree or other. Some have indeed tried state enterprises as a means of breaking into certain areas of business which involve greater risks or extremely long gestations.

25. Most certainly, all eight of us seem to agree that Governments are not good at business. Government managers do not have the kind of bottom line concerns as private managers. I am a strong believer that Governments have no business to be in business. They have a role in regulating and curbing excesses. Left to themselves the private sector can breed predators which grow and grow swallowing up their competitors, forming monopolies and cartels. Only Governments can curb their excesses and break them up when necessary.

26. However a free-market economy, even when properly regulated, cannot guarantee success. Certainly it cannot succeed if the essentials are not in place. A country which has known only a command economy for three-quarters of a century cannot have the entrepreneurs, the private capital, the management know-how, the legal framework and the market without which the free market system cannot work. It would not be suicidal to switch from command to market-economy, but it would certainly require time and nurturing. China is right in not making a total and immediate switch. It is right in not attempting a radical political about turn simultaneously.

27. An anarchic situation is not going to facilitate the growth and flowering of a free market. Certainly it is not going to help the transition from a command economy to a market economy. China needs the strong Government that it has. It may be authoritarian, but it is better than anarchy. Business needs order. It needs to have a predictable future, for few businesses are immediately profitable or successful. The bigger the business, the longer is the gestation, and the greater is the need for a predictable future. A firm strong Government can reasonably ensure a predictable future. A weak Government, depending upon a fickle public, buffeted by the demands of the extremists of the right and the left, cannot be stable, much less ensure predictability.

28. There is no such thing as a free lunch. And Governments, good Governments, cannot be had for free. A price will have to be paid. Before a good Government can be conjured up, sacrifices will have to be made.

29. For the 1.2 billion inhabitants of this great nation, individual freedom to go against the interest of the majority, is a luxury it can ill-afford now. The day will come when individual freedom to disrupt and undermine the well-being of the great majority will be enshrined in the democratic values of China. But for the moment the interest of the majority demands an orderly society.

30. Democracy is the greatest idea ever conceived by man. Like all such ideas it was not born perfect. Who today would regard 10 per cent of the population having the absolute right to rule a state as democratic? Yet that was the democracy in the Greek city states which first conceived democratic Government. In their view women and slaves had no rights.

31. It took centuries to improve the concept. Today democracy takes numerous forms. Even among the western liberal democrats interpretations and practices differ. Some consider carrying guns as a fundamental right, others consider lying as an absolute right, others have various degrees of limitations on individual public behaviour, while others still hesitate at legally recognising homosexual

marriages and families. What they do agree is that anything they do or do not do is democratic and everybody else not in their circle is undemocratic.

32. The worst part is the assumption that democratic western countries can foist their principles through undemocratic means. They object to other ideologies being spread by subversion or force but they never hesitate to use these same methods of spreading their ideology. Sanctions, arm-twisting of various kinds and sustained campaigns through their controlled media are weapons they never hesitate to use. This proselytising for democracy veiled only slightly the objective of eliminating competition before it begins.

33. All this makes the task of governing and developing the developing countries much more difficult. This difficulty is made worse because everyone really wants to practise a democratic system of Government and accept the free-market economy. No one really wants authoritarian rule. But democratic anarchy and poverty, brought about by the inability of the free market system to function, create the conditions for opportunists with ambition to seize power and rule by fiat.

34. In East Asia we believe in democracy and we are anxious to practise it. But we also believe in strong stable Governments that are not easily pressured. The liberal democracies of the West have not produced strong stable Governments. In some countries yearly changes of Government take place. For long periods there seems to be no Government at all. And when there is, the Government seems more anxious to preserve itself rather than provide good Government. Excessively populist Governments have no principles or policies or programmes. They merely try to satisfy just about everyone. And that is fatal. There is no way any Government can satisfy everyone.

35. On the other hand, the countries of East Asia, wanting to catch up in terms of development with the West, need stability and predictability. Countries with regularly changing Governments cannot have consistent policies especially towards investors. We cannot have one Government nationalising and the next privatising, or one giving incentives which are then withdrawn by the next one.

36. The problem is that democracy is inherently unstable. This is a virtue in itself. It is the fear of being thrown out that motivates democratic Governments to do their best for the people. But people are also fickle and extremely forgetful. And so despite providing good Government, there is no guarantee the people will not reject it at the next election. Changing Governments is disruptive. Indeed even changing leaders is often disruptive. The virtues of democratic instability are negated by the drawbacks.

Ladies and Gentlemen,

37. The successful economies of East Asia have somehow managed to give the people democratic rights without undermining the effectiveness of Governments. It is not unusual for the same party to be returned again and again with strong majorities intact.

38. The competing economies of the West are not happy with this. It puts them at a disadvantage. They would like the East Asian democracies to be weak and unstable like theirs, or worse. Maybe there is no grand conspiracy by the West to undermine all the East Asian economies. But conspiracy is not necessary. It is sufficient for everyone to see the danger threatening them for them to act in concert.

39. The early attempts to disguise their intention by talking about democracy and human rights, etc. have now been largely jettisoned. Now they are openly proposing to eliminate the competitiveness of the East Asian economies in order to prevent them from successfully competing with the West.

40. The proposal for a worldwide minimum wage is one blatant example. They know very well that this is the sole comparative advantage of the developing countries. They know that all the other comparative advantages; technology, capital, rich domestic markets, legal framework, management and marketing network are with the developed countries. Indeed they had made sure that their technology is considered as intellectual property and cannot be used or copied by the developing countries without the additional cost of hefty royalties. They know if the sole comparative advantage of the developing countries is taken away from them, they would be unable to compete. Yet they pushed for this so-called social clause at the recent Final Act of the GATT Round, openly declaring that low wages give an advantage to the developing countries.

41. Since it is obvious that the professed concern about workers' welfare is motivated by selfish interest, it is equally likely that the sanctimonious pronouncements on humanitarian, democratic and environmental issues are motivated by the same selfish interest -- the desire to put as many obstacles as possible in the way of anyone attempting to catch up and compete with the West. They made a mistake with Japan. They are not going to make any more mistakes.

Ladies and Gentlemen,

42. I have already said that although I cannot presume to speak for ASEAN, much of what I say would reflect the common thinking of the South East Asians and the East Asians. This is because we are all in the same boat.

43. I have said that China did right in sticking to its brand of socialist politics while espousing a version of the market economy. It is right because it has managed to avoid the kind of economic and political anarchy that the Soviet Union has suffered. It is right because it is apparently more successful economically. It is growing and growing very fast.

44. When a country of 1.2 billion does anything it will have world-shaking effect. South East Asia is very close to China. Obviously it is going to feel the tremor more than most other parts of the world.

45. We in South East Asia (S.E.A.) have always felt the influence of China. Almost without exception we have Chinese minorities, some very substantial. There is even a Chinese state in our midst now. We understand the Chinese and we understand China.

46. When a country is poor it cannot expend much on the armed forces. When a country becomes rich, even if it spends the same percentage on the military, the absolute amount is going to be considerable. Japan was told to spend not more than one percent of its GNP on the armed forces. In 1945 that was a tiny sum. Today one percent of Japan's GNP would exceed the military budget of most Western countries.

47. Similarly a rich China would spend much more than what it is spending now on its forces. It will then become a true world power and have the attendant economic and political clout.

48. But historically China has not exhibited any consistent policy of territorial acquisitiveness. Its neighbours may have lost some disputed territory, but full invasion and colonisation has not been a feature of Chinese history. This differs very much of course from the European record.

49. This question of Chinese aggression occupies much of the western mind. This is because historically hegemony and violent or peaceful occupation of territories had always been the West's approach to self-preservation and wealth. So now they naturally suspect China of having similar ambitions.

50. If South East Asia is not apprehensive of Japan, it should not be worried about China. If we must be apprehensive we must be apprehensive of both. The presence of a western power will not make a difference especially after Haiti, Somalia, Bosnia and Rwanda. It takes only one soldier to be killed before the whole force will be withdrawn.

51. On the other hand a prosperous China will become the engine of growth firstly for East Asia, including South East Asia, and then the world. If 1.2 billion Chinese are half

as rich as the Americans the size of the market will be almost unimaginable.

52. Although it can be expected that China will export to the world it will still have to buy a whole lot of things from the rest of the world. The South East Asian countries would have at their doorsteps a huge market for their edible oil, gas and petroleum products, and even manufactured goods.

53. On the other hand China cannot remain competitive forever. Its cost of production will go up and its ability to export would be reduced. The South East Asian countries would continue to benefit.

54. South East Asia should have no fear of a wealthy and strong China. Indeed South East Asia should welcome a wealthy China. They will share in the wealth through trade and economic interaction.

55. In the 'Socialist Market Economy' the Chinese have found an answer to their political and economic needs. Admittedly, spreading wealth evenly in a market economy is far more difficult than spreading poverty evenly through the command economy. There will be many political problems, not least the demand for greater public participation in the political process. The Government will have to give in, fighting rearguard action all along the retreat. There may even be some upheavals and bloodshed along the way. But the Chinese are likely to handle it better than the Russians or the Yugoslavs.

56. East and South East Asians can reasonably expect this scenario as being more likely than that projected by European and American observers. With China's modernisation and economic development, the wheel of progress would have turned a full circle and Asia would, at the very least, regain its place in the world's civilisation. Europeans may not like this but there is no reason for Asians to actively assist them in order to block China and delay Asia's rightful place in the sun.