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MALAYSIA: LESSONS FOR DEVELOPMENT

I feel greatly honoured to be asked to address this distinguished gathering of parliamentarians and business leaders in Lebanon. I was asked to share with you Malaysia's development experience and the lessons learnt. It is fair to say that every country is unique in its development experience and the manner in which its economic, social, cultural, political, and institutional characteristics have evolved. There is no standard recipe for development that is applicable to all countries, and I certainly do not have such a recipe to offer today. I can only talk of Malaysia's experience. If they give rise to ideas about development in other countries, we will feel honoured and flattered.

2. There are many similarities between Lebanon and Malaysia. Both have a long history of active international trade, Lebanon because of the trading skills of its people and Malaysia because of its strategic location at the southern most tip of the Asian Land mass. Because of this international trade the people are from diverse ethnic and religious affiliation. With occasional hiccups we have learnt to live together quite harmoniously.

3. The founding fathers of independent Malaysia opted for close collaboration between the Malay, Chinese and Indian inhabitants, first in the struggle for independence, then in the governance and development of the country. There was extreme economic disparity between the Malays and other indigenous people on the one hand, and the Chinese and Indians the other.

4. In 1969 race riots broke out and Malaysia was written off by the world. There would never be racial harmony and peace in the country. But the doomsayers were wrong. The leaders of the different races got together and decided to remove the cause for racial conflict, which they identified as economic disparity between the races.

5. Each race must have a fair share of the wealth of the country. This was not to be achieved through taking from the rich to give to the poor. Instead the economy must be made to grow and from the growth part a bigger portion was to be given to the Malays and other indigenous people in order to reduce the imbalance. It worked. Although the target was not fully achieved, the success was sufficient for racial harmony to be restored. There has not been any race riots since the introduction of the affirmative New Economic Policy. Malaysians believe and accept that it is better to have a slice of a growing economic cake than the whole of a shrinking cake.

6. Peace and stability is essential for economic growth. To have peace there must be equitability and justice for all. For this a strong government is needed. Since independence the governments of Malaysia, by the will of the electorate, have always been strong. Only a strong government can put into operation good but unpopular policies, unpopular with the people as a whole, as when taxes and road tolls are introduced, and unpopular with some segments when affirmative actions are taken.

7. Malaysia is not a socialist or a communist country. It has always believed in the market. But that has not prevented it from adopting socialistic methods in order to accelerate development. And so we have not just five year plans but also long-term perspective plans lasting as long as 30 years.

8. This enables the government to determine the direction of the country. At the time of gaining independence Malaysia was an agricultural country, depending almost exclusively on rubber and a fairly big tin mining industry. While the population was growing the production of rubber and tin was unable to create the growing wealth and job opportunities for the increasing population.

9. The way out was to industrialise. But Malaysia had no industrial expertise, or capital or management skills or knowledge of the market. When other newly independent countries were nationalising foreign holdings and closing their markets to foreign goods, Malaysia bucked the trend. It decided to invite foreigners to start manufacturing industries in Malaysia. For this the country was prepared to forego taxes or local participation. All that Malaysia asked for was the creation of jobs for its people.

10. Such was the success of this strategy that today 82 percent of Malaysia's exports of nearly U.S. Dollar

100 billion a year is made up of manufactured goods. Initially the goods were manufactured by foreign-owned companies but today a growing portion of the manufactured goods are by Malaysian owned and managed companies.

11. Borrowing again from socialist methods the government went into the capital intensive industries, such as Heavy Industries. Although only partially successful, this government's initiative spawned numerous supporting industries especially in the field of engineering. Sophisticated industrial plants and equipment are now produced by Malaysian companies for the domestic and export markets.

12. The industrialisation spurred the growth of the Malaysian economy, creating jobs and increasing disposable incomes and also creating a need for adequate modern infrastructure. And so roads, railways, power plants, water supply, ports, airports have to be built. Building these not only contributes to the expansion of the economy but also provided opportunities for acquiring civil engineering technology and skills. However care was taken that the cost of these does not exceed the funds available to the government from taxes or from judicious borrowings.

13. The government follows closely the technological advancements in the world and encourages the acquisition of new technologies for new industries. Thus when composite materials looked like becoming the material of the future, money was invested in this industry and skills were acquired. Sophisticated airplane components are now produced by Malaysian companies. When I.T. looked like being an important area for growth, government provided money and incentives for local and foreign investment in this area.

14. Research and development are given strong support by the government. Laboratories set up by the government have successfully increased the productivity of Malaysian industries. The Malaysian rubber trees produce ten times more rubber than the original tree brought from Brazil. Similarly the Malaysian oil palms begin to bear fruit in the 4th year instead of the 7th year of the original tree. The yield per tree is also greater. Now the research is in the I.T. field and already Malaysians are producing their own computers and other hardware as well as software for domestic use and for exports.

15. All these changes and progress require a change in mindsets. Under British rule Malaysians were made to feel so inferior that they believe they could never be more than farmers and fishermen. Unless they gain

some confidence in themselves, they cannot become skilled technicians and engineers. Industrialisation would not be possible.

16. Accordingly the government went about changing the mindsets of the people and instilling confidence in their ability. A slogan was adopted to convince Malaysians they can do anything other people can do. "Malaysia Boleh" means "Malaysia can". We can do anything if we are willing to do it and are prepared to learn. Malaysians were encouraged to do things that they had never dreamed of doing before. Malaysians were sent to climb Mount Everest. A Malaysian sailed alone around the world, achieving an internationally recognised world record. Malaysians parachuted down on the North Pole together with a Malaysia car, the Proton, which was able to start immediately.

17. Malaysians served on United Nations Peace Keeping Forces and 1500 of them went to Bosnia to help the Bosnians ward off Serbian attacks. Even when the U.N. stopped financing this operation, the Malaysians stayed on, enduring the below zero temperature with which they are not used to.

18. All these achievements help give confidence to Malaysians and prepare them to face challenges in the new industrialised Malaysia that they live in.

19. When Malaysia became independent in 1957 the population was only five million and the per capita income was U.S. Dollar 300. Today Malaysia's population is 24 million and the per capita is almost U.S. Dollar 4,000. It could have been more but our currency was devalued by almost 70 percent. We dream of a population of 70 million in the year 2100. We need this bigger population because for industrialisation we need a big domestic market.

20. But administering a country with 24 million is not as easy as one with only five million people. Besides we are a multi-racial and multi-religious country. Education and civics is obviously important in order to ensure that the people uphold the system of governments that we have. This is not easy. While the government tries to bring everyone together through the school system, some people have other ideas.

21. We allow for government-aided schools in the pupils' own language. The result is that the Chinese and Indian do not all go to the national schools, preferring their own schools instead. The Malays are all Muslim. Although Islam is taught in the government national schools many parents prefer to send their children to private religious schools.

22. This rejection of the national schools, although

not too serious, undermines the government's effort to instill good civic sense among the future citizens. When the number of citizens grow to 70 million, they might not understand their responsibility as citizens. They might not be able to contribute to the continued growth and well-being of the nation. If the country is disunited and weak it will not be able to face the challenges posed by such concept as globalisation.

23. We are dosing our best to make our national schools attractive so as to train future citizens to be civic minded, responsible and able to continue developing the country.

24. Malaysia has ambitious plan to become a fully develop country by 2020. To do this we must grow by seven percent per annum. We were growing nicely at more than that prior to 1997. Then the currency crisis struck. Our currency was devalued and suddenly we became poor. Our businesses were in distress, and the government faced the threat of severe recession. There seemed no way to avoid borrowing from the IMF and placing our economy under IMF management.

25. Malaysians are passionately independent. Borrowing from the IMF and placing our economy under their direction would mean a loss of independence. Besides we have special problems which the IMF would not allow us to resolve effectively. We have to reduce the economic disparity between the Malays and the non-Malays through affirmative action. We want to go into industries such as the automotive industry, heavy industries which would not meet the approval of the IMF

26. Still we examined the advice of the IMF for achieving economic recovery. We even tried it to see if it worked. Very quickly we found that it would destroy us. Raising interest rates, having a surplus budget, bankrupting companies so that they can be bought cheaply by foreigners, increasing non-performing loans by banks which would cause financial distress all around, allowing foreign companies to ride roughshod over our ailing local companies - all these would destroy our economy and end Malaysia's aspirations to become a developed country.

27. And so we rejected the IMF formula and its loans and devised our own way towards recovery. It was frightening. We had to go against the whole world. Everyone said we were going to destroy ourselves. They were convinced that we knew nothing about finance.

28. But as you know we succeeded, we recovered. Now many agree that the IMF way is not the only way to deal with a financial crisis. In fact the IMF way is a ticket to disaster. Even if recovery is achieved the debts owing to the IMF would keep the country indebted

to the IMF for years and years. There would be no financial independence. The IMF would continuously be peering over our shoulders proffering unwanted bad advice.

29. Malaysia wants to be fully and truly independent. From the very beginning we avoided offers of aid and loans. We try to live within our means. If we seem to be overspending it is because people assume that we cannot afford the projects we carried out. The new administrative Capital Putrajaya, the K.L. International Airport, the highest buildings in the world, the 800 km North South Highway - they all cost billions of dollars. They are big and they are costly but they are within our means. We did not borrow much from abroad, a fact which saved us when our currency was devalued. We have huge savings - roughly 40 percent of our GDP yearly. And we borrow from domestic sources, borrow our own currency, the Ringgit. If the Ringgit gets devalued, we don't have to pay more as we would if we had borrowed dollars.

30. Managing our finances prudently is a must. The inflation rate is very low - less than three percent. Which means, that the purchasing power of our people are not reduced significantly. With the fixed exchange rate against the U.S. dollar, imported inflation is minimal. Besides, in purchasing power parity terms the Ringgit is almost as strong in Malaysia as the U.S. dollar is in America. Malaysia Per Capita Income of U.S. Dollar 4,000 is equivalent to U.S. Dollar 10,000 in America.

31. Many financial experts all over the world are still urging us to float the Ringgit. We don't see why. Business is comfortable with the fixed rate and businessmen like knowing that their budget for the year need not be revised because of exchange rate instability. Cost of labour in Malaysia is higher than in most neighbouring countries but we have certain assets which make investments in Malaysia profitable.

32. Malaysia is doing quite well. We are politically and socially stable despite our multi-racial and multi-religious population. We would have done better economically if the world is doing well. Our trade is two times the size of our G.D.P. Consequently when the world's economy is not doing well it affects our economy. But we are finding ways of increasing our trade with other countries to offset the diminution in the trade with our traditional partners like the U.S. for example. We see a great potential for increasing our trade with this part of the world and we assure you that our trade will not benefit us alone. We want to buy as well as to sell.

33. We have a powerful crisis management team. During

the financial crisis the team met every morning to consider all the latest economic statistics, to note what was not performing well and to devise measures for improving performance. The team is still active except it meets once a fortnight. It has enabled us to tackle incipient problems before they become intractable. The team has decided that the Middle East or West Asia can largely replace the U.S. as a rich trading partner.

34. Malaysian Ministers are required to go on the ground to ensure that government decisions, cabinet decisions are fully and correctly implemented. We know very well that very often government decisions are not implemented in time and often not even interpreted correctly. Ministers who participated in the decision making must translate those decisions into deeds. Being hands-on is very important.

35. There are a thousand and one things that governments must do to make a success of developing. We try in Malaysia and I think the results are quite good.

36. We believe that exchanges of information is important. We think we can learn from others and we are quite open to give information to anyone who may think that there is something to learn from us. We have benefited not only from looking East at Japan and Korea, but also at some developing countries in Asia.

37. I have tried to outline Malaysia's experience in development. I hope you find it worthwhile. Malaysia and Lebanon have a lot in common. I hope that we can share common approaches in the development of our countries.