

AT THE ADVISTA ARABIA VI CONFERENCE

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“The Dynamics of Change - The Malaysian Experience”

Firstly I would like to thank Advista Arabia for this renewed invitation to talk on the Dynamics of Change : The Malaysian Experience”.

2. May I begin by making the obvious comment that nothing is static. Everything changes over time. We can resist change, be orthodox and conservative but we cannot reject change indefinitely. We can either accept the changes as they come or we can modify them. Of course we can also initiate changes ourselves. Whatever we do changes will take place.

3. Unfortunately there are some among us who would like to reject change, to remain as we are or as we thought we were in the past.

4. Some would like to revive the imagined situation 1400 years ago, believing that we would be pure and unpolluted by the changes that have taken place since. Unless we live in absolute isolation from other human societies, and that in itself is impossible, trying to remain as we were during the age of the Prophet of Islam is impossible. That being so it is far better to accept that there will be changes and to adapt, to modify and to manage the changes so as to maintain the basic or fundamentals of Islam.

5. In Malaysia the Muslims make up only 60% of the population. It used to be 99% Muslim but the Muslims did not modify or manage the changes brought about by Western (British) colonisation. Refusing to adapt themselves to the developmental needs of the colonisers, the Muslims withdrew and isolated themselves and were marginalised as immigrant Chinese and Indians filled the needs of a country being developed by the British for its wealth. At one stage the Muslim Malays became a minority in their own country. Fortunately outside events reduced the proportion of the immigrants. At independence the Muslim Malays barely managed to be in the majority in Malaysia.

6. Today it is too late to change the demographic composition of the country. To survive and to remain relevant the Malays had to change and adjust themselves to the irreversible changes. It should be pointed out here that in most multi-racial countries, this kind of demographic change is rejected and attempts made to restore the status quo ante. The result invariably is endless racial conflicts, political instability and violence. But, in Malaysia the Malays who are all Muslims decided to adjust to suit the situation by working with the descendants of immigrants. Without losing their faith in Islam or their racial character they adjusted to the changes brought about by the British and the religiously and culturally different immigrant races. With their small majority they managed to remain the most powerful political element of their own country. Using their power judiciously they gained the cooperation of the other races to bring stability to the country and so enable it to develop.

7. But beyond inter-racial cooperation, Government system needed to be changed also. Malaysia could not go back to the old pre-colonial feudal system with nine sultans ruling their own small states. A change was obviously necessary.

8. Instead of a Republic the Malays who are all Muslims together with non-Malays formulated a constitution providing for a parliamentary democracy with a constitutional (non executive) monarch. Thus the peoples' wishes could be catered for without need for the monarch to be replaced by a president. The nine Malay Sultans elect one of them to be Paramount Ruler every five years. This represented a pragmatic change designed to meet the special needs of a modern democratic Government. Apparently all quarters are satisfied with the changes made to accommodate traditional feudalism without denying the rights of the people. As it turned out, democracy was the right choice. Apart from making Malaysia governable and stable, we need not face the pressures that we see today to democratise or else.

9. The free market system was not a problem. Malaysia had not been influenced by socialism and had always rejected Communism. Nevertheless independent Malaysia is not averse to adopting some socialistic ideas. In general state ownership and state monopolies were rejected. But for certain businesses, state involvement was accepted. Even then when it failed to produce results, state ownership or monopoly was abandoned in favour of privatisation.

10. Malaysia is quite clearly ambivalent, accepting and rejecting practices without concern for ideologies. Whatever is thought would bring benefits to the country is accepted. Pragmatism governs all the policies and practices of the government. But through all these Malaysians retain a strong belief in religion. In fact Malaysian Muslims are now more religiously inclined than during pre-independence days.

11. Islam is the official religion of the country. But other religions may be practised freely. This is guaranteed by the Constitution. Religious conflicts are therefore minimal.

12. Islam is said to be an obstacle to the modernisation of a country. This is obviously not true. Islam has always been a modernising force. When the ignorant Arabs, the Jahilliah, embraced Islam they became a great people who built the Muslim civilisation which was far superior to European civilisation for centuries. If Islam seems to be in the way of modern development it is because today we interpret Islam differently.

13. I will not preach to you about Islam. But I would like to say that throughout the political, economic and social changes that we have experienced in Malaysia, we have tried to adhere to the fundamental teachings of Islam. We believe fervently that Islam is a religion for all ages, and not only for the seventh Century of the Christian era. Trying to recreate the conditions of the seventh Century in order to practise Islam is to demean this perfect religion and make it a religion suitable only for the relatively primitive conditions of the seventh century.

14. When we became independent we did not follow the trend towards nationalisation of foreign businesses. Under the British the principal contributors towards economic growth were tin mining and rubber plantation. Practically all the mines and plantations belonged to the British. Initially we had no expertise in these businesses and nationalising them may cause them to fail.

15. Instead Malaysia invited more foreign participation in its economic development. Mines and plantations could not create the jobs for a growing work force. We had to industrialise, i.e. to move into manufacturing. Not having the know-how, the capital, the

management skill and the market knowledge for manufactured goods we decided to provide incentives for foreigners to invest in the manufacturing industry. We were not looking for revenue for the Government from foreign investments. We were only interested in jobs for our people. And so we opted for labour intensive industries.

16. Still there were a lot of spin-offs from these industries. Supplying labour, raw materials and other services to these foreign industries helped to enrich our people. More than that we soon learnt enough about manufacturing and exporting to start our own industries. Such is the success of this strategy that today we are short of labour and investment by locals often exceed foreign direct investments. Accordingly earnings by Malaysians and government revenue have increased greatly. In time Malaysians were able to buy up through the share market all the foreign-owned estates and mines. We have progressed so far as to buy some brand name foreign businesses in foreign countries.

17. For all these things to be done political stability and a strong Government is essential. The British did not train our administrators sufficiently. Had we won independence through war the freedom fighters would have booted out the British civil servants and taken over their places. The chances were the freedom fighters would not be capable of providing a good administration for the country.

18. We negotiated our independence and allowed the British officers to remain in charge while our people understudied them. The transition from British colonial rule to Malaysian independent administration was smooth. The most important principle which we acquired was the professionalism of the civil service, the military and the police. As professionals, they do not involve themselves in politics. Instead they accept their role to provide service to whichever government the people elect. This prevents the possibility of military coups or non-cooperation on the part of the services. The elected government is thus able to plan and carry out policies and development effectively. The bureaucrats, the police and officers in the armed forces as well as members of the elected Government may also not be involved in business activities.

19. Under the British there was no democracy. Since independent Malaysia opted for democracy, it is not only necessary to change the structure of the government but also the mindset of the people.

20. Democracy has failed in many developing countries because the people do not appreciate the limitations of democracy and its potential for disruption. In fact democracy presents many opportunities for corruption. And corruption of course will prevent the achievement of success in the development of a country.

21. Because theoretically anyone can become the leader of the country, new democracies often see a proliferation of political parties. It is not unusual to have as many as 200 parties. Yet we must have noticed that the old democracies have usually only two parties. When there are a big number of parties it is impossible for any party to achieve a simple majority in order to form a government. A coalition of convenience would have to be formed. Such coalitions are weak because defection by even a small party can cause the downfall of the government. A weak government cannot govern properly, much less develop the country.

22. Fortunately in Malaysia there is continued strong support for the coalition of race-based parties which had struggled for independence. The coalition acknowledged the premier position of the indigenous Malay party, the United Malays National Organisation or UMNO. Because the Malays are numerically superior, UMNO became the strongest component of the coalition. This lend stability and strength to the coalition, so much so that in elections it functions like a single party, with the components helping each other rather than contesting against each other. It is a pre-election coalition, not a post-election coalition. Because the components help each other, victory in elections is more assured. Today there are fourteen parties in the coalition and mutual help enables the coalition to win as many as three-fourths of the seats contested. A strong Government is therefore possible.

23. But managing a coalition of ethnic-based parties in a multi-racial country is very tricky. Under the British divide and rule policy the ethnic Malays were confined to farming, the immigrant Indians work as labourers in estates while some became low grade professionals and the Chinese made up the urban business community. The separation of the different races was not just functional but also physical, with the Malays in the countryside, the Indians in the estates and the Chinese in the towns.

24. Integrating them and getting them to think of themselves as Malaysians is obviously difficult. By and large the Chinese were the most prosperous. The Malays, the poorest, naturally resent the wealth of the Chinese. As indigenous people who make up the majority of the population they want a fair share of the wealth of the country.

25. In 1969 race riots broke out in Kuala Lumpur. The then almost completely Chinese city was attacked by Malay mobs, angry over the result of the General Election in which the mainly Chinese opposition gained more seats than expected. Apparently the urban Chinese had rejected the Chinese party in the coalition and failed to support Malay coalition candidates where the contests were between UMNO and the so-called Islamic Party.

26. Government had not yet been officially formed when riots broke out but an emergency government was set up which declared a national emergency and very quickly gained control of the situation. But restoring law and order was not enough. Something had to be done to prevent a recurrence of race riots.

27. At that time the world had written off Malaysia. Racial animosity they believe was endemic and riots would occur again and again. Malaysia would not be politically stable. It certainly would not be able to develop. Like many of the former colonies of the Europeans it would sink into anarchy and poverty.

28. But the leaders of different races within the Coalition did not give up on the idea of racial cooperation and a multi-racial Government. Suggestions that a purely Malay Government should take over (and this was possible because the Malay Members of Parliament in the Coalition together with those in the opposition constituted a majority) was rejected by the Malays. Instead a National Operations Council with the participation of politicians from the Coalition parties and also from the opposition together with representatives of the civil service, the military and the police was set up to rule the country temporarily, to determine the causes of the riots and to propose new strategies to reduce, if not overcome, racial confrontations.

29. Everyone agreed that the cause of the riots was not race or religion but the extreme economic disparities between the Malays and other indigenous people on the one hand and the Chinese and Indians on the other. A New Economic Policy (NEP) was formulated to correct this imbalance.

30. It was a daunting task. The Malays had just about 1% of the economic wealth of the nation, the Chinese and Indians 30% with the rest being in foreign hands. Under the NEP the indigenous people were allocated 30%, the Chinese and Indians 40% and foreigners 30%. What this means is that the Malays/indigenous share has to increase by 3000% while the Chinese/Indian by 33%. But actually the increase has to be much greater because the economy of the country had grown by almost 7% per year during the original plan period.

31. This redistribution is to be done not by taking away part of the wealth of the Chinese and foreigners in order to give to the Malays but by enlarging the economic cake and increasing the rate of growth of the Malay portion 100 times faster than the rate for non-Malays. Considering that the Chinese and Indians are much more dynamic in business, achieving this target needed a miracle.

32. To cut a long story short, the Malays now have 20% of a very much enlarged economy of Malaysia. They no longer feel deprived or resentful of the Chinese. Everyone has benefited from the NEP, so much so that when the financial crisis undermined the economy there was no outbreak of racial riots as happened elsewhere.

33. In fact the financial crisis saw a triumph of management of change in Malaysia. It was not easy but it succeeded well enough for Malaysia to remain stable and to develop.

34. To enlarge the economic cake requires numerous changes in strategies. Industrialisation had to be accelerated and foreign as well as local investors encouraged with innovative incentives. Every now and again the Government itself would venture into business through various agencies. But mostly privatisation was used to increase the stake of the Malays in business. All the while a sharp lookout had to be kept on the distribution of wealth between the races.

35. In the 1980's, the second decade of the NEP, growth accelerated. The credibility of Malaysia as a place to invest was ensured by honouring every promise made to investors. Should any policy change be made, which may adversely affect business, they would be applied only to new investments. But such changes were few and far between. Instead new incentives were created which were also extended to earlier investors.

36. To accelerate the building of infrastructure, privatisation of Government monopolies and services was launched early in the 1980's, earlier than in Europe. There were failures but by and large privatisation was successful. When they failed it was due largely to the recession following the 1997 – 1998 financial crisis. When a currency is devalued business failures are inevitable.

37. Malaysia would have gone under when its currency was devalued by the rogue currency traders. But we managed to overcome the sudden radical change in the business environment by initiating our own changes in strategy.

38. It is not just through fixing the exchange rate and the one year control of capital flows which helped the economy to recover. A National Economic Action Council was set up. A committee of the Council met every morning to study all the statistics on economic performance and to devise ways of countering any dangerous trends. Thus if there was a property overhang, special property sales were held, with all parties including the government participating. The results were gratifying.

39. Special efforts were also made to ensure recovery of other sectors of the economy. Every now and again certain sectors were identified which could be stimulated to grow faster. The ports in Malaysia held potential but did not grow fast enough. Special efforts were made to market the ports and in less than ten years the ports began to handle 800% more containers than previously.

40. Handling change requires constant vigilance and effort. Although governments can have experts to advise them, the members of Government themselves must understand the elements of economy. This is because in the end the Government must decide.

41. Popularity alone is not enough for a Government to succeed. Administrative and management skills together with an understanding of economics are now essential. Today government is not about politics alone. It is about development, about growing the economy, about creating wealth for the country and the people, about the well-being of the nation.

42. In the 46 years of its independence Malaysia has gained much experience in managing change. The fact that in that period the same party has been returned by the people through regular open elections has enabled experience to be accumulated and applied in the handling of changes that the passage of time brings along with it.

43. Today's solution to the problems of change may be good enough for today's situation but may not succeed with future changes. The IT age has arrived and the same way of handling the industrialisation process of the country will not do well for the age of instant communication and jet speed travel. Malaysia will have to develop new strategies in order to manage the change brought about by these technologies.

44. As you can see Malaysia is always alert regarding changes happening within and outside the country. As soon as a change occurs, the machinery for dealing with it is activated, the problems studied and analysed, solutions suggested and decisions made. The solution may be right or wrong but it is better to do something than to let things go their way. If the solution fails, corrections can be made or a new solution proposed and tried. Insyaallah because we try to help ourselves, we believe Allah will help us. If we still fail we will try again. Certainly failure to manage change will not be for want of trying.