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**“Improving Malaysia – China Trade”**

Malaysia and China have been trading with each other since time immemorial. In the early days Malaysia's export to China consisted of forest products including natural lacquer and gums. And China exported to Malaysia lacquer ware, ceramics, silks, Chinese herbal medicines etc. As more and more Chinese migrated and settled in Malaysia, they began to import salted and dried food items as well. The trade grew without any incentives or efforts on the part of both Governments.

2. When rubber was grown extensively in Malaysia, it was added to the list of Malaysian products exported to China. Palm oil followed. Prior to China's adoption of the socialist market economy, the volume was small. But it shot up greatly following the change in system and the growth in the wealth of China's consumers. As Malaysia's industrialisation progressed more and more manufactured goods, particularly electronics figured among Malaysia's exports to China. It was naively assumed by everyone that China would remain a largely agrarian economy and would always import its manufactured goods. Malaysians thought so too and geared itself to export to the Chinese market.

3. But now China has become a power house for manufacturing. Everyday more and more manufactured goods are added to the list of products that China exports to the world and of course to Malaysia. These goods are now of world quality but are usually very competitively priced. With this Malaysia's imports of China's manufactured goods increased many folds. There would have been a big imbalance in the trade but a richer China began to import more palm oil etc from Malaysia.

4. Since China is capable of producing practically all the manufactured goods that it needs, it seems that there would be no Malaysian manufactured goods imported into China. But strangely Malaysia is still exporting quite a number of Malaysian manufactured goods to China. They include electronic products and components and in 2003 they were valued at 6.4 billion US Dollars.

5. Strangely despite China being capable of producing everything that it needs, trade between China and Malaysia has been growing consistently. In 2000 total trade between China and Malaysia stood at 6.2 billion US Dollar. However in 2003 the figure rose to 13.2 billion US Dollar. The reason for this is of course the growing wealth of China's consumers. This has become so significantly rapid and high that it is going to change the pattern of world trade.

6. China has a population of 1.3 billion people. It is bigger than the population of Europe and North America put together. Even if their per capita income is below that of Malaysia, which is now approximately US 4000, its GDP is huge. Its capacity to consume must be equally huge.

7. But of late we have been seeing China growing at 10 percent per annum and above. Even the Asian Financial Crisis did not affect China's growth to a significant degree.

And that growth has also shown its effect not just in Malaysia but in the world's economy and in the pattern of trade.

8. For example today there is a world wide shortage of steel. China consumes some 250 million tons of steel at the moment. It imports a large part of the steel from the world. And with this the prices naturally rise. But China is also consuming huge amounts of fuel oil and gas for power and for a rapidly growing petro-chemical industry. China needs huge quantities of timber and building material. Even if China attempts to produce all these by itself, it is not going to be enough, China will still have to import. And when China imports countries like Malaysia will gain in terms of their exports.

9. But China's consumption is far from peaking. In fact it is presently still lower than that of Malaysia. It is obviously going to grow. Again the per capita may not grow fast but the GDP of 1.3 billion people is going to be huge. And with this huge GDP it is going to import more and more from the rest of the world, including Malaysia. It is in fact going to be the principal engine of growth for the world's economy.

10. We are familiar with the Chinese in Malaysia. They are very hard working, skilful and intelligent. They acquire know how very quickly and doing business comes naturally to them. These qualities will help in the growth of China. China can become the producer of any manufactured product the world needs, and it will manufacture them at low prices without compromising on quality. It will be able to flood the world's market just as Japanese goods once flooded the world's market. But for how long will China maintain its strong competitive advantage?

11. If we take into consideration China's huge population, it will be for a long time indeed. But eventually wages will go up and consumption increase. Even as the cost of production of China's product go up, its enriched people will consume more. So the growth in China exports will slow down a little but its consumption, and therefore its imports will rise faster.

12. I will not talk about the political repercussions of a greatly enriched China. But for Malaysia it would mean a big increase in the demand for quite a few of Malaysia's products, products which China cannot produce in the quantities that it needs.

13. Malaysia produces palm oil, something China cannot produce enough even now. We are the biggest producer of palm oil in the world. We produce 13 million tons yearly but we are capable of producing more. Presently China consumes 3 million tons, with about ½ of that coming from Malaysia.

14. As China's consumers become richer, their lifestyle will change. Prior to your modernisation, you rub oil on fish for frying, to minimise your use of cooking oil. Today you deep-fry in pots of oil, and probably throw away the used oil. 1.3 billion people deep-frying will need a lot of palm oil and Malaysia can expect to produce and export more to China.

15. You will need fuel, for electricity, for heating and for your motor-vehicles. Already China produces 3 million cars in 2003. 10 million motor vehicle sales in China per year in the near future is not unthinkable. Malaysia does not produce much oil but together with Indonesia we have huge gas reserves. At some stage your need for gas will be so

high that it would become worthwhile for Malaysia and Indonesia to pipe their gas to China. Gas being clean would be the preferred fuel if China is to avoid the pollution by burning fuel oil and petrol. By using gas for power generation petrol can be released for vehicular use.

16. Even if you produce all your manufacturing needs, a rich and sophisticated consumer population will demand to have imported goods for a change. Malaysia produces some of the best known branded products in the world. And Malaysia's own branded products are already selling well in the most sophisticated markets.

17. More and more Chinese will yearn to travel. Today half a million Chinese visit Malaysia every year. The number is set to increase by leaps and bounds. Earnings from Chinese tourists will help off-set Malaysia's imports from China.

18. Although China has some of the best educational institutions in the world, they will not be able to cater for the fast growing Chinese demands for good education. Already the largest number of foreign students studying in Malaysian institutions of higher learning are Chinese from China. Malaysian universities teach in English and this seems to be an added attraction for Malaysian institutions. Additionally Malaysia's large Chinese community make Chinese tourists and students feel at home. Malaysian universities are expanding and twinning with famous foreign institutions in order to offer quality education for Chinese and other foreign students.

19. As much as China is going to be the industrial centre of the world, China will also be the biggest market for the components and raw materials of the world to feed its burgeoning industries. China's entry into the World Trade Organisation will mean the opening up of China's market to the products of other countries. Consumer taste will play a big part in increasing China's imports at the same time that China's hungry industries will be needing vast quantities of raw material. Generally world trade will grow and trade between China and South-East Asia is bound to grow faster than China's world trade.

20. Outsourcing is now an accepted practise. While it is very likely that many countries will outsource from China, China's industries will also outsource and Malaysia and other Southeast Asian countries are bound to benefit from this.

21. Today China is a low-cost country. Wages in China are low by comparison to those in the developed countries and even against countries like Malaysia. But, as I have said, low wages and low cost will not remain China's competitive advantage forever.

22. Japan was a low-cost producer at one time. But the prosperity of Japan had to be shared with the workers. Wages went up. Japanese food products went up so high that a kilo of Kobe beef will buy a whole cow in Malaysia. High margins were needed to meet the cost of higher wages. Japan has now become the highest cost country to live in. Imports have consequently become more competitive. Additionally the continuous trade surplus of Japan against the ethnic Europeans resulted in pressure to revalue the Japanese Yen. The Plaza Accord forced the Yen to strengthen against the US Dollar. Although Japanese goods remain competitive, many Japanese industries had to move to low-cost countries like Malaysia.

23. I do not think that wages in China would become higher than those in Malaysia any time soon. But eventually cost of production in China must go up. There will also be pressure for China to revalue the Renminbi or to float its as China's accession to the WTO will result in less Government control over the currency.

24. Already we are seeing increases in wages in the coastal industrial belt of China. This will spread inland. The Chinese Government itself is keen to industrialise the interior, the Western part of China. In time China's competitive edge will be reduced, first against the poorer countries of South-East Asia and then with the middle income countries like Malaysia. When the Renminbi revalues upwards, Chinese goods will be more expensive, imports would be cheaper, and higher consumer income will create demands for imports.

25. At that stage Malaysia may be able to once again export manufactured goods to China in addition to large amounts of palm oil, rubber and gas. It will take a long time before China's demand is stabilised. Even if China's population growth is reduced to one percent there will be a population increase of 13 million every year, half of Malaysia's population. And their needs will also cause demands to increase. If in addition China's per capita reaches anywhere near that of the lowest income developed countries, the demand for everything would be enormous.

26. Even after the Three Gorges Project and the new nuclear power plants are completed, the demand for energy would outstrip the supply. China today uses up large amounts of power for its aluminium smelters. This is wasteful because in fuel short China, aluminium smelters would be uneconomic. The smelters will have to be shut down and China will have to import large quantities of aluminium.

27. Malaysia has enormous hydro-power potential. We are now building the Bakun Dam. The contractors for the power plants are from China. With 2,400 megawatts, Bakun can support a number of aluminium smelters. But Sarawak in Malaysia is capable of generating more hydropower. Using new technology, damage to the environment would be minimal. It is logical that China sources its aluminium needs from Malaysia, from smelters which may be partly owned by China.

28. Vast areas of Malaysia have been denuded by slash and burn cultivation. The misguided environmentalists supports slash and burn because they believe in preserving the primitive way of life of the indigenous people. They do not want these people to become educated and to earn their living through less damaging activities. Today these areas are bare and not productive and supportive of the life of the indigenous people in the interior of the Borneo states.

29. If these areas are planted with palm trees and quick growing timber, Malaysia can be a great supplier of palm oil and timber for China. The poor people would get an income from their presently unproductive land and at the same time earn a good income working on the land or in other higher paid jobs. In addition the forest would be revived and become tree-covered again. True the trees will not be the same long-maturing tropical hardwood that Malaysia is famous for. But still the bare areas would now be covered with trees. The one single obstruction to the reforestation of Malaysia is the environmentalists who want to maintain the primitiveness of the

indigenous people so they can study anthropology and write thesis for their doctorates. We do not want to clear our jungles except for living space but those areas which have been cleared need to be reforested and slash and burn cultivation stopped. Not only will China be supplied with Malaysian timber but the whole world will benefit from the proper management of Malaysian land. And of course Malaysia can continue to be the carbon sink for the polluting developed countries after reforestation.

30. Trade does not follow a fixed pattern forever. The nature and contents of trade will change. As I mentioned earlier, Malaysia's exports to China a thousand over years ago were made up of jungle produce like scented timber, natural lacquer and gums. Today we export manufactured goods and components in addition to rubber, palm oil and gas. The percentage of manufactured goods will probably decrease steadily as China industrialises. Later it may rise again.

31. But the situation in China itself will change as the Chinese people become more prosperous. Their needs and their life-styles will change. Their life-span will change also. All these will affect China's trade with the world and China's trade with Malaysia. We can predict some of these changes and prepare to take advantage of them. These predictions will not always be correct.

32. A case in point was the decision of an American aircraft manufacturer to produce narrow-bodied mid-sized aircrafts in China in cooperation with the Chinese during the early days of China's modernisation. They thought that China would need these relatively small aircrafts for its domestic routes. But air travel in China picked up so rapidly and on such a big scale that China needs the biggest aircraft even for its domestic routes. The company which had made this wrong projection lost out. Clearly projections and predictions are at best intelligent guesses.

33. We really cannot for tell the changes in China's economy and world trade absolutely accurately. But there will be change. One thing is certain, whatever China needs would have to be on a large scale, and some of these needs could be met by Malaysia if we prepare for them.

34. For the rest we will have to play by ear, to respond as quickly as possible to China's needs.

35. Malaysia knows China well. We have a large number of Chinese speaking people in Malaysia. They will no doubt keep their ears close to the ground with regard to changes taking place in China so that Malaysia can respond quickly. And whenever an opportunity arises for more trade between Malaysia and China, you can be sure they would try to seize it.

36. Malaysia has a population of only 25 million, yet it is rated the 17<sup>th</sup> biggest trading nation in the world. Malaysia's total trade is twice the size of its GDP. It is forever looking for markets and trading partners. Malaysia believes that China will become a major trading partner in the future. We cannot say exactly what will contribute to the growth of trade between Malaysia and China. But we do know that the potentials for trade between the two countries are great and both our countries will benefit from this trade. All that is needed is for us to seize the opportunities as they appear and also for us to deliberately create the opportunities.

37. Finally while we should allow for events to take their natural course and trade between China and Malaysia to grow naturally, we should also do everything possible to stimulate growth. This we can do by frequent consultations, by having a permanent machinery to overcome bureaucratic obstacles and to proactively facilitate growth.