

**SPEECH BY THE HON TUN DR MAHATHIR BIN MOHAMAD
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**“Sustaining Malaysia’s Competitiveness in a Challenging Global
Landscape”**

I would like to thank the organisers for this invitation to talk on the subject of “Sustaining Malaysia’s Competitiveness in a Challenging Global Landscape”.

2. More than almost any country in the world Malaysia is a trading nation. Its trade is two times the size of its GDP. By comparison the trade of countries like Japan and the USA big though they are make up than 20% of their GDP. As a consequence any failure in the part of Malaysia to keep up its trade would have adverse effects on the economic performance of Malaysia. Malaysia is truly trade dependent.

3. Trade is a two-way affair. It involves exports and imports. The factors which contribute to each are very different and they are not complementary. It is entirely possible for a country to be a big exporter without being a big importer or vice versa.

4. The ideal state is for the import and export to be balanced. But very often there is an imbalance. Where there is an imbalance than the deficit partner would want the trade balance to be corrected. However in most instances this cannot be easily corrected. This is because the factors which operate on exports are not the same as on imports.

5. Exports depend not just on the availability of the items suitable for export but also on the competitiveness of the exports in the world market. The cost of production of the export items must therefore be kept low enough to remain competitive.

6. Malaysia has by and large been able to keep costs low. In the palm oil industry Malaysian costs are fairly low. It is the same for manufactured good which depend on labour as the biggest input.

7. We are able to attract investments in the labour intensive industries in the past because relative to Europe and America our labour cost was low. Europe and America had increased wages because of pressure by the labour unions. The unions did not care whether the products of their labour were competitive enough. As long as only Europe and America were able to produce these

manufactured goods the increased in prices because of higher labour cost did not matter.

8. But when Japan and then South Korea entered the market with the same products produced more competitively the Europeans and the Americans were pushed out of the market. Today we hardly see any electrical household goods or electronic products from Europe and America in the world market.

9. Fortunately for these two continents they were able to move into higher technology and more capital intensive products. They have also moved into manufacturing weaponry, financial and other services. Today passenger aircrafts and the sophisticated electronics involved are almost entirely dominated by the Europeans and Americans.

10. Malaysia today is facing the same problem that was faced by Europe when their labour intensive industries became uncompetitive. Against our neighbours and China, our labour cost no longer gives us a competitive edge. To remain competitive we must move into other industries.

11. Very early on we decided to move into IT. It was an ambitious move. To succeed we need a new breed of workers – workers with higher educational qualifications and ability to think and reason rather than to work with the hands. Can we produce such workers?

12. We can if our education system can provide these new intellectual skills through emphasis on more science and mathematics. These subjects may seem strange and unfamiliar for many but than they were at one time stranger and unfamiliar to the advanced countries also. But through assiduous training these subjects have become familiar to the people in the advanced countries.

13. We can acquire the same knowledge and skills if we make up our minds to learn. A few may need to know the subjects thoroughly but for the majority the need is to master only that part which is relevant to the work that they have to do.

14. We must remember that when we went into the electronics our workers and our people as a whole knew almost nothing about this technology. But we have seen the children of farmers and fishermen very quickly learning the skills to produce the most complex of electronic products according to world standards.

15. Similarly we can learn to design IT chips and products if we can break up the tasks into easy components. Given time we will acquire the given skills, each group in its particular fields. There really is no limit to the application of IT and the chips which make even the most impossible things possible. The movie camera now requires no films, no tapes but just a simple tiny memory stick to record moving pictures with sound. The quality of the picture is even better than films or tapes. Just as today we have libraries of films or tapes we can store all

the books in all the libraries of the world on memory sticks occupying only a fraction of the usual library space.

16. Then there is bio-science. Malaysia is said to be rich in biodiversity. And we know that from this rich resource we can produce many things, from medicine for the most intractable diseases to chemicals to replace those which we have found to be harmful and to pollute. We can go into the business of replacing human parts. Already our scientists are inventing artificial skins for the treatment of burns. They can develop replacements for specialised tissues and bones.

17. The field of genetics and bio-sciences is so large that the advanced countries cannot do all. Besides we have the natural resources handy. We can share in the research and the development of the results of bio-technological research.

18. It looks tough. We may lose our competitiveness in the production of those things that we produce now without being able to make progress in the new field that we have chosen. But if we refuse to move into new fields when we are losing competitiveness in the old fields than most certainly we will not be able to sustain our competitiveness in the market place and to remain a big exporter.

19. We may move into agriculture. Maybe that is the answer to sustaining our competitiveness. After all we had done very well as the world's biggest supplier of rubber and palm oil and also pepper, cocoa, coconut etc. Agriculture had contributed much to our development in the past. We had proved that what had not been of use to the countries where these plants grew naturally, have been able to contribute much to the competitiveness of Malaysia in international trade. Agriculture may yet be the answer to sustaining Malaysia's competitiveness as an exporter.

20. Now to maintain our high trading figures we must also be a big importer. To import we need domestic prosperity. Part of this prosperity will come from our successes in exporting. But domestic wealth is dependent upon the productivity of the people. It is true that some countries are wealthy and able to import huge amounts of goods and services without the people putting in any effort. This is because the land has huge exploitable resources. The people need not even work to produce the resources themselves. Foreign capital and foreign labour can be used.

21. But such easy wealth is detrimental to the people and the country. They will become too dependent. If for some reason or other the foreigners pull out, then the economy would collapse. What resources remain cannot compete in the world market.

22. Because of this Malaysia did not rely on wealth created by others or wealth from the production of resources or products. We maximise our wealth by

acquiring the skills to do things on our own so that any value added accrues to us.

23. For example we are a small producers of petroleum but we earn more from each barrel than most other countries. We participate in the upstream and downstream activities, acquiring skills which help us to earn also in other countries.

24. Where once our rubber and tin were exported through third countries, we now export directly. This contributes toward the development of our ports and shipping businesses, creating jobs and new businesses.

25. To sustain our competitiveness we must look into adding more value to all that we produce – from rubber to palm oil to microchips, to the marketing of our services and skills abroad.

26. It is in fact dangerous to be too dependent on trade, because if anything happens to our trading partners we would feel the effect. To remain competitive we must try to reduce not the absolute amount of trade in terms of value but the percentage that increases in trade contribute to our GDP. In other words contributions to economic growth, especially from domestic sources should be increased.

27. Increased domestic investment would do this. Such investment can come not just from the private sector but also Government sector. Big investment from both sectors would increase non-trade contributions. Should for any reason trade falter than the effect on the economy would not be so severe.

28. The Government can contribute towards bigger imports simply by increasing its budget. Government expenditure on its operations, largely on the wages paid to its employees help activate the retail trade. Increases in salaries can do this as can the payment of bonuses when affordable. For the Government the increase in expenditure gives a return because increases in trading, including increases in imports result in more taxes being paid as individual, corporate and sometime import taxes. It has not been possible to work out how much of the money expended by the Government comes back as taxes, but quite obviously the amount is not inconsiderable.

29. Similarly when Government spends money on projects through its development expenditure, it stimulates the economy, consumption and imports. And with the growth from Government development expenditure, again there will be a growth in Government revenues from the taxes on individual and corporate incomes and other levies. It may be possible to work out quite accurately the revenue return to the Government for each Ringgit the Government spends on development projects.

30. The prosperity of the people as a result of Government spending will contribute to increasing imports. Increases in import increase total trade. But obviously care must be taken that the import bill does not exceed the export earnings.

31. Prior to the Currency Crisis Malaysia had trade deficits every year. But since the crisis for more than 80 months there has been a trade surplus, very substantial trade surplus. Actually this should not happen. The fall in the value of the Ringgit should result in higher cost of imports and therefore more Ringgit to pay for import bills. But because exports also earn more Ringgit, there is no deficit. And consequently the Reserves has gone up as never before, being more than 80 billion US Dollars. But of course part of this must be due to the appreciation of the other currencies and gold held as reserve against the depreciated US Dollar.

32. It can be seen that to remain competitive a whole lot of things have to be done. And this includes good Government.

33. Malaysian's competitiveness owes a lot to the Governments effort to maintain stability and to have a reasonably good administrative machinery. The administration is efficient even though it can be improved. Certainly in the effort to maintain Malaysia's competitiveness the administrative machinery needs to be improved. There is nothing like efficiency, speed and absence of corruption to ensure maximum competitive advantage for a country.

34. The Government also needs to have ideas and make innovations continuously in order to be ahead of Malaysia's competitors. Choosing the area for Malaysia to excel, provision of incentives, provision of needed infrastructure, an education policy that is geared towards manning the new industries and a thousand and one things need to be done so that in the new globalised world Malaysia is not left behind.

35. There must also be close cooperation between the Government and the private sector. The Malaysia Incorporated concept has enabled the Government to know and to respond to the needs of the private sector. This will reduce the cost of doing business and improve competitiveness.

36. Globalisation is obviously a challenge because the globalisation that is taking place is defined and interpreted by the rich and powerful countries. These countries see a lot of opportunities for them and their giant cooperations to exploit countries like Malaysia.

37. Accordingly they would like to acquire all the industries and banks in the poor countries in order to make them more profitable. Perhaps they can make these small industries and banks more efficient but in the process the national interests of the countries concerned would be sacrificed.

38. For example it would probably be more rational and profitable to close down an inefficient local industry or back and let the giant foreign corporations or banks supply all the needs of the people.

39. In Malaysia Proton cars should be replaced with the cars of the giants so that the cost of development etc could be saved, and the prices reduced. Malayan Banking could easily be acquired by City Bank or HSBC. If losses increased in Malaysia it does not matter to the foreign giants because they would be making a lot of money elsewhere. Not having a national car or a Malaysian bank is no big deal because Malaysia would be serviced by industries and banks which operate world-wide.

40. But would Malaysians be happy losing the Malaysian identity to become citizens of the world, owning all the industries and the banks of the world. I suspect they would not. Malaysians would probably be richer but even if no effort is made to give them a role in these giants. By and large they would be mere worker bees.

41. But the assumption that big is efficient and profitable is not quite true. We have seen these giants cheat. We have seen how their top management line their pockets. We have seen how inefficient they can get. And we have seen them collapse. Enron, World.com, Arthur Anderson, the multi-million car manufacturers of America and Britain, and many more have proven that size does not guarantee efficiency or profitability. They cheat like any small retailer in small countries.

42. Malaysia has to be careful about globalisation. We should not swallow it in total. We did very well before globalisation and we really don't need it. The only reason why we have to accept globalisation is that the rich countries threaten to use their markets against us. As a trading country we need the market.

43. But we have to position ourselves so that the threat of closing their markets to us would have minimal effect. Today 20% of our trade is with the US. We need to reduce this percentage by growing our trade with countries which need our good. We need to grow our trade with Northeast Asia, with Southeast Asia and with India. These are the areas which will grow in the future. Within a short space of time China and India will become the world's economic power, will become not just the industrial centers of the world but also the biggest market in the world. To remain competitive in the globalised world we need to study these rapidly emerging markets. If we position ourselves correctly and produce the right products for East Asia and South Asia we will be able to maintain our competitiveness for the future.