

**Speech by Tun Dr Mahathir bin Mohamad
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Approaching 2020 – Major Trends that will Impact Malaysian Business

1. 2020 is only 12 years away – not a very long period of time. So it should not be too difficult to predict what would happen on the way, and when we reach there.
2. Trends are things that you can observe happening now but can be expected to progress into the future. By extrapolation one should be able to predict fairly accurately the changes that trends would have on things, on peace and war, on fashion, on morality, on politics and on business.
3. Unfortunately trends can take a sudden turn, even a 180 degree turn. Then all your predictions or projections can become so much nonsense.
4. I have seen things change so radically in this country that all my expectations have proven to be wrong. Trends also do not move in a straight line. There can be any number of twists and turns that what happens in the end would be very far from what you expect or predict would happen.
5. But we can to a certain degree be fairly sure that certain things would happen. Malaysia has, for example a high rate of population growth – some 2.1 per cent or 21 per thousand heads of population per annum. Based on this and our knowledge that presently our population is 27 million. By 2020 our population should be around 35 million.
6. Population growth is a trend that we can take into account its effects. There would be a bigger market even if per capita does not increase. But the likelihood is that per capita and GDP would increase in tandem. We have seen this in Malaysia's growth in the past.
7. We are therefore going to have a fair sized consumer market. Shopping complexes would have to be increased in number and upgraded. Already our shopping complexes are of the same standard as in developed countries. But we would need to upgrade them.
8. A mass consumer market will make local manufacturing more viable. And there are many things that we can produce. Like Korea and Taiwan we would learn to design and manufacture many things not just for our markets but for export as well.

9. Against this, expect increased and less restricted imports. We must be more competitive. We must develop skills in hi-tech products and we must pay higher wages. The days of low labour costs would have been over before 2020.
10. Our workers must be highly qualified and be trained in higher skills. The workers we would need must be able to handle and service automatic machines, not just assemble things. We will learn to design and produce some of these machines.
11. Training of the workers must be done at specialised training centres. Computer programmes will be needed to do this.
12. What all these means is the business of specialised education and training would become big business. The training centres would also cater for foreign students if we use English as a teaching medium.
13. Malaysia cannot any longer offer itself as a cheap labour country. But the chances are our highly trained workers would still cost less than similarly trained workers in the developed countries. This may mean a shifting of some middle range hi-tech industries to Malaysia.
14. Our advantage today is still the ability to take instructions in simple English. But there will be a spread of English language capabilities in China, Vietnam and other competitors of ours.
15. Accordingly our advantages seem likely to be eroded not only because others are acquiring working knowledge of English but we ourselves would probably downgrade learning of English.
16. I hope that the teaching of science and mathematics in English would continue. But I am not sure. If the decision is made not to, then the hi-tech industries are going to bypass us.
17. Long ago we decided that agriculture would not be able to create the number of jobs for our growing population. Agriculture is good in terms of food security. But for this we would have to go into hydroponics, fish farming etc if we want to be self-sufficient. Such modern agriculture would depend less on labour than on technology. The result could be more unemployment.
18. When we decided to build KLIA, we looked at the demand in a hundred years' time. Getting a piece of land near the city for a large enough airport capable of future expansion is not easy. When we built Subang we projected 400,000 passengers per annum. But by 1990 it was handling 11.0 million passengers. There was no way we could expand there. We started looking around but we were handling 18.0 million passengers before we found a suitable piece of land.
19. We never wanted to make the same mistake again, not with airports nor with other infrastructure.

20. Malaysia has the best system of expressways and roads in south East Asia. But still they are clogged. We need to build more and more.

21. I think we need to change our approach. Instead of building roads we should improve mass public transportation. It is unfortunate that the government decided not to implement the project for double-tracking and electrification of the north-south railways. Had this been implemented we can take off much of the heavy traffic from the highways and there would be less cars clogging the roads as more people travel on medium speed express trains. Now the government may be forced to reconsider this railway project but the cost would be more than double. The longer we delay the higher the cost. Worse still the greater would be the need.

22. We are putting some half a million motor vehicles on the road every year. The decisions to reduce the price of cars lead to more vehicles clogging the roads, stuck in traffic jams and going nowhere.

23. Building more roads is not the answer. We should see more railway lines.

24. Business depends a lot on ground transportation. Road transport will become more and more costly as the price of oil will never go back to the old levels.

25. Look at it in whatever way, the answer would still be improved and more extensive network of railway lines. Presently our railway lines run north / south. We need to have more east / west lines also.

26. We have been able to enjoy cheap oil because we have a relatively small population to match our small production. By 2013-2015 we would be producing as much oil as we consume. There would be no excess oil for export at world prices. so there will not be oil export earnings to subsidise local consumption.

27. We can continue to sell at low prices but Petronas will have to bear the losses as it does now with gas. The other oil companies would need to be compensated if they are forced to sell at low prices. But there would be no revenue from oil exports to pay to the foreign companies. After 2015 production in the country will be less than consumption. Then we will have to import oil at world prices. Again oil prices must creep up steadily.

28. Petronas has gone abroad to produce oil and gas. Costs of investment for these have shot up threefold. If government takes over all the profits from Petronas to subsidise oil and pay for development. It will not be able to invest in exploration and production abroad. This would be disastrous for Petronas and for the country.

29. Tourism. It is estimated that by 2020, 200.0 million Chinese will be going abroad.

30. India would be another source for tourists. Also in large numbers.

31. We have some problems with tourists from these two countries disappearing. But if the government will not be nasty, the tour operators, hoteliers and other service industries should see a great deal of prosperity.

32. Provided that we handle tourists well we would be welcoming 35 million foreign tourists in 2020, one per head of population. Those in the business should prepare for the influx.

33. So far I have talked about the domestic and relatively controllable side of business and the economy. The foreign side will be more difficult to manage as we have little control over it.

34. After the hedge funds attacked the U.S. Dollar they have been forced to regularise their activities. But the current fall in the value of the US dollar is more due to the intemperate spending by the American government, although there is a currency trading element as well. Loose lending practices involving risky housing financing has created huge losses by banks, funds and institutions.

35. The United States is bankrupt. It has a debt of 14 trillion dollars and it consistently suffers from twin deficits in its balance of payment and government expenditure. The US dollar is backed by nothing, no gold, no foreign reserves. The only reason why it has not collapsed completely is because people still accept payment in US dollars, especially for oil. If the countries of the world cease to buy US bonds, stop paying for imports in US dollars, then the US will have no money to pay for its imports. The greenbacks would be just useless pieces of paper.

36. Unfortunately if the US Dollar has no value and its economy collapses, the repercussions will be felt by everyone, including Malaysia which carries 30% of its reserves in USD and sells 20 per cent of its products to the US. The resultant worldwide depression will be worse than in 1929-30. Everyone believes the United States would do something to save itself from bankruptcy. But do not rely on it too much. We have to think and act for ourselves. We need to prepare ourselves for a world in deep depression.

37. Today's oil prices are far too high and will damage the economies of the poor as well as the rich.

38. Accompanying the rise in oil prices is the increase in the prices of raw materials such as steel, copper, aluminium and some rare minerals. This is due simply to increases in demand by two awakening giants; China and India. China's and India's per capita is lower than us at the moment. Imagine the purchasing power of their 2.3 billion people when their per capita doubles for example. They will suck in everything the world produces.

39. A frightening thing happened recently – the shortage of food grains. It had not happened for decades. But in future we can expect this to happen again and again.

40. Trying to tackle the increases in price one by one will not work. We may be able to handle oil prices through greater fuel efficiency but what about the other raw materials; what about food?

41. We believe in a free market; in supply and demand determining prices. But markets can be manipulated and shortages can be created. In fact today huge quantities of goods can be traded without the goods really existing. This was what happened when currency trading was allowed. The total trade in currency was very many times more than the total value of world trade. Similarly the total volume of oil traded would be more than the total amount of oil produced or consumed. Seems that the trade in nothing is worth more than the trade in something.

42. We have forgotten why we promoted free markets and free trade.

43. The systems we created were for our own good but they have now become the systems we must sustain even if they destroy us. Something is wrong here.

44. All systems and ideologies were good until rogues see ways to abuse them for their own benefit or profit. This is what we are seeing happening to the free market. It is being abused simply because governments have abdicated their responsibility to prevent crimes in business and punish rogue businessmen. If we are going to benefit from the free market and free trade, governments will have to go back to regulating them.

45. Then people will say that the market and trade would no longer be free. But actually despite trade being free, it is not really free. We still cannot trade in certain goods, arms and dangerous chemicals for example. We still have to fill forms and submit to examinations by a host of officials. We still have to pay tax or if not we have to prove that our goods are not taxable.

46. Anyone trying to import or export goods must be familiar with the formalities that must be gone through.

47. Clearly trade and markets are even now being regulated one way or another.

48. So what's wrong with governments regulating trade and markets to make sure that the trade and the markets are real, not virtual?

49. What's wrong with requiring everyone to declare correctly what they are trading in, with whom they are trading, whether they really have whatever it is that they want to buy or sell, and of course the accounts which everybody else have to declare. It is ridiculous and grossly unfair that currency trading which is capable of destroying whole nations is not transparent and submits their accounts to no one.

50. What's wrong with insisting that virtual trading in virtual markets at ridiculous prices be disallowed, be made illegal?

51. What's wrong with limiting the loans the traders take and ensuring that banks do not take risks beyond their capacities?

52. There are a host of other regulations which can be put in place to ensure that the free market is about trading and marketing real things in a well regulated manner. Deregulation may have merits but clearly the demerits are far greater.

53. As to currency, there should be new bretton-woods involving all the countries of the world. A new international financial regime should be put in place so that exchange rates cannot be manipulated and rogues stopped from creating virtual money to play around with.

54. In other words we need to bring order to the free market and free trade. If they look less free it does not matter. We must remember that the systems are devised for our good and not for us to be sacrificed to ensure the good of the systems.

55. But frankly I don't think we can persuade the rich countries to agree to change or modify the present free market system. They would want their rogues to abuse the system and make huge profits stealing from the poor. But we should try.

56. In the meantime we should look into adjusting and managing a high-cost economic environment domestically.

57. There are in the world today high cost countries and low cost countries. Generally the developed countries are high cost countries. Still they are competitive and their standards of living are without exception higher than in low-cost countries.

58. If we care to remember, we must acknowledge that relative to the past, our own costs are much higher now. I remember the days in my boyhood when 1 sen could buy two items of spices. A plate of noodles (mee) would cost 5 sen.

59. Today we do not talk of sen anymore. We pay for everything in Ringgit and in multiples of Ringgit.

60. Yet we must know that despite this higher cost of goods and services our standard of living is far higher than in pre-war Malaya. Even in the early years of independence the prices of goods and services were much lower than now.

61. In 1967, 10 years after independence our population was 10.0 million. Today it is 27.0 million. The per capita in 1967 was 950 USD. Today it is 6,000 USD. Obviously our income growth is higher than population growth.

62. That is why, despite there being more of us, despite our higher cost of living, our standard of living has actually improved.

63. There is something to be learnt here. Can we speed up the process of increasing income, increasing our cost of production and yet remain competitive? I think we can.

64. We talk of the wage price spiral and we are afraid that this might happen to us if we raise wages. We fear that cost of production would increase as wages increase and we would not be competitive. We would not be able to attract investments

whether from domestic sources or foreign. But let us work out the percentage that wages constitute in the total cost.

65. Supposing it is 20% of total costs. If you raise it by 25% it will increase your total cost by only 5%. You can do this once a year or every two years while improving your productivity by other means, by better machines or automation for example.

66. Think. Malaysian costs are already higher than 30 years ago, higher than those in other ASEAN countries except Singapore. Still we are attractive. One of the greatest assets we had was political stability and consistency in government policies. There were other things which made Malaysia attractive. If we improve on these assets, the increase in costs (not just of labour but transport and materials) will not make us any less attractive or our products less competitive.

67. We must also remember that the pressure of increasing prices will be felt by our competing neighbours as well. They too will have to increase their cost of production. So our cost will not be, comparatively speaking, so high as to make us totally uncompetitive.

68. But consider the effect of increased income all round. There will be more money to purchase goods and services. However unions must not increase their demands when wages are already being increased. Instead they should cooperate in improving productivity. In the end they will gain more.

69. I never liked the low wages paid our wage-earners. It restricts their purchase of goods and services. If their purchasing power is increased then retail businesses especially, would enjoy greater sale. More would be spent on leisure. Other businesses such as transportation would prosper. And government would earn more income also.

70. I don't often admire Singapore or what it does. But when Singapore gained independence it carried out a programme of steadily increasing wages every year. Some businesses and industries left Singapore but the efficiency of Singapore's authoritarian government retained many of the investors and industries. We sometimes wonder why investors go to Singapore when they could come to low-cost Malaysia. I think you know why.

71. I think we should systematically raise wages. If we manage wage increases carefully enough, the wage price spiral would not be too damaging. In time it would settle and we would adjust to a high cost environment while our living standards also improve. Even our poor people will be less poor.

72. When people generally earn more money, they spend more money and somebody will make a profit and the government will collect more taxes. The so-called mega projects contributed much towards the growth of Malaysia's economy and increased living standards all round.

73. There is a lot of talk today about the increasing cost of doing business but no talk about managing and adjusting to a high cost economy. Certainly there is no talk about deliberately increasing and managing cost. Yet unconsciously this was what we have been doing all these years. And we have been successful at it. Otherwise with our higher cost we would be poorer than our low-cost competitors. But we know we are more prosperous than them.

74. The world trend today is towards higher cost of everything. Our cost must increase anyway.

75. We can just rise with the tide.

76. But since high cost goes with prosperity, why not rise above the tide by actually creating and managing a higher cost economy.

77. That way we can achieve our 2020 target.

Thank you.