

**SPEECH BY TUN DR MAHATHIR BIN MOHAMAD AT THE MAFAA
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“Current Global Economic Impact on Malaysia”

1. Malaysia is a trading nation. It had been one for 1800 years. It is hard to believe this but this is what I read in a paper written by an American academic who was attached to one of the Malaysian Government Universities.
2. In the beginning it was only about collecting jungle produce like gums and aromatic wood to exchange for lacquer ware, ceramic and paper etc from China. Since then we have made tremendous progress in trading. Now we produce and export, apart from raw rubber and palm oil, also microchips and electronic manufactured goods.
3. A trading nation is very sensitive to what is happening to its trading partners. Obviously when partners do well, we can expect to export more and do well ourselves. And the reverse is also true. When partners suffer from economic disease, we tend to catch the disease as well.
4. That is why you may remember we promoted the slogan “prosper thy neighbour”. When neighbours are prosperous we can expect to sell more to them and vice versa. Apart from that in these days of easy travel and porous borders we can expect a fallout from neighbours with problems in the form of illegal immigrants.
5. Today we have become a world trade centre, exporting and importing from almost 200 different countries. The economic health of these countries are important to us. And certainly the economic health of the world is extremely important to our own economic health.
6. What is the economic situation in the world today? There is turmoil and unprecedented increases in the prices of practically everything.
7. We have seen some inflation before but never on the scale we are seeing now.
8. Oil for example went up by almost 400%. Other raw materials like steel, copper, aluminium have also gone up sky high. So have food grains and edible oils.
9. The increases in prices of these basic raw materials have inflated the prices of everything else.

10. Oil is crucial to transportation, whether by land, sea or air. The sharp increase in oil price must push up the cost of everything that is transported by any means anywhere. We have as yet not found alternative fuels and improvements in fuel efficiency have not reduced consumption significantly.

11. World consumption of fuel oil goes up everyday. Although new reserves are being found and produced, production has not been able to keep up with consumption. Demand pull has increased the price a little but the ridiculous increase of 400% is more due to speculation and manipulation. On any day more oil is traded than is produced or available in storage. These activities are what cause the increase in oil price, the apparent shortages and again the greater increase in price.

12. The increase in other raw material price is due to increased demand by two economic giants, especially China. Together with India and several other Newly Industrialising countries of Asia, all developing rapidly and involved in massive construction and industries the demand for raw material like steel, copper, aluminium, rubber, edible oils, food grains has caused shortages and unprecedented increases in price. The shortage of food grains was caused by seasonal decreases in production. But this is going to happen again and again.

13. The war in Iraq is another important factor. Every United States President has promised to reduce the deficit in the U.S. budget but at the end of their terms the deficits have increased. But President Bush is going to leave to his successor the biggest budget deficit in the U.S. history. But worse than that he will leave behind a much-devalued U. S. dollar.

14. It is due to his reckless spending on tax cuts of 1.3 trillion for the rich. The war in Iraq has already cost the U.S. 3 trillion dollars according to (former World Bank Chief Economist) Joseph Stiglitz and will continue to cost more.

15. Other countries would have gone bankrupt with the twin deficits the United States suffers from. Although the United States has not, still the faith in the U.S.D. as a trading currency and as reserves has all but disappeared. The dollar is but a shadow of its former self. Once countries reject the U.S.D. as trading currency and as reserves the greenback would become quite worthless. Unfortunately the countries, including Malaysia, which hold dollar reserves will lose also. That is why countries like China, Saudi Arabia, Japan and little Singapore keep on trying to shore up the US Dollar.

16. Of course it is not just Bush who is making the US Dollar useless. It is the playing around with money by institutions and funds in the US. Loans and mortgages are sold like commodities. The amounts involved are huge. Cash has almost been outlawed as plastics of all kinds are used as money in daily transactions.

17. Banks distribute credit cards without caring whether the holders would have money to pay or not. They claim to know the average losses and therefore despite failures to meet credit card debts they would still make profits.

18. But when millions of credit cards are used worldwide the bad debts must be quite considerable. People are living on the never never as never before. But one day all these shuffling of figures in bank books must blow up.

19. Apparently that is what has happened to sub prime lending for housing. Banks and institutional funds are falling like nine-pins. The Great United States which use to tell us not to bail out bankrupt companies now put up as much as 200 billion dollars to bail out the banks and now the mortgage companies with fancy names like Freddie Mac and Fanny Mae.

20. With all these things happening to the financial sector of the United States the Dollar cannot possibly stay strong. When it weakens a lot of countries which hold reserves in US Dollar must suffer. And Malaysia too must feel it as despite very early warnings we still like a chunk of our reserves to be in US Dollar.

21. Inflation takes place all the time in every country. Certainly Malaysia is not an exception. The factors influencing inflation are internal as well as external. And as a trading nation with total trade of more than 100 billion a year, Malaysia cannot possible escape the current world wide inflation, an inflation which affects every one of our trading partners.

22. Nevertheless we would be more fortunate than most of our neighbours. This is due to the unusual rise in the prices of the commodities we export. We also export manufactured goods but the imported contents of these are high and they have all increased in price. Still the trade balance will remain much in our favour for some time.

23. What are the raw materials we export? Although we are a small producer of oil, our population is not big. After consuming about two thirds we can still export a tidy sum. Together with our foreign oil operations our revenue from oil actually exceeds our total revenue from income and corporate tax. For a country with a small oil production we have done rather well and hopefully will continue doing well for some time.

24. All the taxes and dividends from Petronas would go to the Government Consolidated funds and much of it would be used to subsidise pump prices for oil. The Government has withdrawn much of this subsidy but I think even at the higher pump price there would be some subsidy element.

25. Oil price may go down but never to the old level. So Malaysians will have to put up with high oil price.

26. Gas is subsidised by Petronas. Now gas has to be imported by Petronas at world prices. To sell it at low prices fixed by the Government for the IPPs (Independent Power Producers) would mean Petronas would have to subsidise it. Other oil companies would not want to do it. Perhaps you may have noticed that Natural Gas for motor vehicles is only sold by Petronas.

27. Over time consumption of oil and gas will exceed local supply. There will be no excess to export and to earn the money to subsidise oil and gas prices. Government revenues from other sources would not be enough to subsidise oil prices. So we will have to face this prospect of high oil prices, even if world prices go below US100 Dollar per barrel.

28. With increases in oil prices other goods and services will increase in price also. And of course the increases in raw material prices world wide will increase the cost of these at home. Construction material and construction cost must all go up.

29. Generally the impact of Current Global Economy on Malaysia would be to raise the cost of living – i.e. it will cause inflation. Now the rate of inflation is said to be 7%. This is misleading. For most ordinary people it must seem much more. Just the increase in oil price is 40%. And the increase in other food products are much higher.

30. Malaysians will be facing unprecedented inflation rate. The result must be demands for increases in wages and salaries. This must add to cost and will contribute to increases in prices of local products as well as exported goods.

31. But then the increases in oil and raw material costs must affect other countries too. Our competitors would not be free from high inflation. So the competitive advantage of the low labour cost countries would not increase much as their costs would also have to go up.

32. But oil is not the only raw material we export. We also export palm oil and rubber together with some tin, pepper and cocoa. All these have increased in price and will therefore increase our export earnings. In fact the present increase in the value of our trade and the surplus are mainly due to the increases in oil, palm oil and rubber prices.

33. The raw material price increases are far more beneficial to us than the increase in the price of manufactured goods. This is because much of the manufactured goods have imported contents which have all increased in price. The profit margin may not increase percentage-wise. Besides although the figure for exports of manufactured good may be quite high, we would earn little for they are mostly tax-free.

34. Still manufacturing will remain important because of the employment of large numbers of people. Unfortunately more foreigners would be likely to be employed and their remittance would be very substantial. The outflow of cash would be quite substantial.

35. Although the cost of travelling would go up, there will continue to be more tourists coming to Malaysia. This is because our main source of tourists are China and other Asian countries. These countries are likely to grow higher than world average and more people would be wage earners in new industries. They would want to travel.

36. Initially the people in newly industrialising countries would go to places closer to their countries. We are close to all these countries and so we would benefit from the economic growth of these countries. Our tourist industry does not depend on Europe or America. So the reduction in the numbers of European and American tourists will not affect us.

37. Although palm oil and rubber production can go on producing forever, but Malaysia is short of land. More and more of our estates would be developed in foreign land. This will contribute to our economy.

38. Malaysia's growth will slow down as much because of global regression as by local factors. What is certain however is that we will have a high cost environment domestically and internationally? All countries will have to learn to deal with this new global and domestic environment.

39. For a time we would be less negatively affected than most other developing countries. But eventually we will have to face the fact of a world in economic turmoil, a high cost world and a shifting of the centers of growth from the West to the East.

40. When finally the world learns to live in this environment Malaysia will find everything has changed. The old comfortable way of growing the economy will be gone. Whether Malaysia will emerge better off or worse would depend upon our understanding of the changes and the adjustment we will make. We will see our trade and our growth becoming more influenced by the countries of Asia, in particular China and India. The increasing wealth of the Gulf States will also change the direction of our trade and the sources of foreign investments.

41. Investments from the oil-rich states would be largely in property development. If we succeed in training our workforce we may continue to attract high-tech industries.

42. Of course the impact on Malaysia of current global economic changes would depend much on how we adjust to them and how we manage them.