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"GLOBAL COMPETITIVENESS: THINKING GLOBALLY, ACTING
LOCALLY'

Thank you, Mr. Chairman,

I am honoured and privileged to be invited to talk on the theme "Global Competitiveness: Thinking Globally, Acting Locally". I would like to thank the organizers for the opportunity to share with you the Malaysian experience.

Ladies and Gentlemen,

Global Competitiveness in an Age of Uncertainty

2. Let me begin, before discussing the subject proper by saying that this Forum is being held at a time full of dark shadows looming over us and the fears of what might happen next in our world engulfed with uncertainties. In this regard, the aftermath of 9-11, Bali, the Mombassa bombings and incidents elsewhere had also caused us to have a closer look on how we could maintain our position as a trading nation. We have to change our strategies not only based on past experiences but also we need to make adjustments in order to suit current environment. It would thus be aptly appropriate for us to be deliberating on the theme against the backdrop of this undercurrent.

3. We cannot help witnessing the constellation of forces that seems to dictate international relations. Events that now shape our views are very much influenced by the complexities of the world we live in. The seemingly inevitable war in Iraq and the unending and worsening Palestinian-Israeli conflict, highlight the difficulties for us to work towards sustaining a peaceful and stable world where justice prevails. Many countries suffered higher unemployment. Economic growth in many countries is at a dismally low level. Generally the stock markets experienced a decline. We saw the Argentine economy collapse as the country defaulted on her debts. Whilst in the US and in other western countries, we were shocked by scandals after scandals, simply due to the manipulation of accounts committed by reputable accounting firms in collusion with the top management of those companies which we did not think could exist in countries which had placed strong emphasis on transparency and accountability in corporate governance.

4. There is no denial in my mind that the downside effects of globalization have exacerbated terrorism. This had adversely impacted global trade. In the short and medium terms, counter-terrorism measures are bound to add to the cost of doing business, including the increases in insurance and re-insurance premiums. The

current preoccupation with counter-terrorism measures has undoubtedly brought benefits to the arms and security industries. The public and private sector will have to invest on specific actions and measures to ensure safety and that trade is not unduly affected. How could we then remain competitive under the circumstances? How could we ensure our economic survival when confronted with this new non-tariff phenomena?

5. The central challenge for policy makers today, I believe, is how to maintain competitiveness in the light of the generally grim global landscape.

6. In discussing competitiveness, we cannot run away from one of the defining issues of our times, namely globalization. The advances in technology and globalization have not only amplified the effects of the action of others on us, but of our actions on them, prompting some writers to it "glocalisation", rather than globalization. Certainly, in an increasingly globalizing world, there is a need to, as the organizers of this conference have put it, 'Think Globally and Act Locally.'

Ladies and Gentlemen,

Acting Locally

7. Allow me to invert the theme of your Conference, by addressing the question of "Acting Locally" first. I will use the Malaysian experience, not out of a sense of hubris, but more because I know best my country's experience of moving from an agro-based country relying on its primary commodities of tin and rubber, to an industrialized country where almost 90 percent of its exports revenue comes from the manufacturing sector.

8. In dealing with our own position, we recognized that our success depended very much on the presence of institutions, regulations, policies and infrastructure that support and drive productivity and sustained increases in output. Therefore our focus must continue to build our capacity in these areas.

9. Looking back at the position of Malaysia when we became independent in 1957, many outside observers predicted that the country was doomed to fail because it had a mix of difficult and complex economic, political and security challenges. On the economic front, statistics showed we had a per capita income of only 227 US Dollars. The poverty level of our population during that period was high. The majority of the people were poorly educated. We had a high birth rate of more than 3.5 per cent, while our economic growth was low, less than 3.5 per cent per annum. To put it in another way, we were truly in the farthest reaches of the Third World. With all the negatives against us, it has made us very determined to get out of the situation.

10. Today, we could confidently say that we have come a long way. In purchasing power parity terms, we have now a per capita income of US dollars 9068. In UNDP terms we are categorized as a high/ medium developing country.

11. We have tackled the scourge of poverty aggressively and we targeted that by the year 2005, pockets of relative poverty will be reduced to 0.5 percent, or totally eliminated.

Ladies and Gentlemen,

12. Despite the economy's exposure to cyclical global downturns, we managed to maintain dynamic growth, averaging 8 per cent per annum until the Asian financial crisis hit us in 1997/1998. Since then, however, we are back on track and the economy is on a positive and sustainable growth path.

13. What is behind Malaysia's economic success? This can be attributed to a multiple of factors, economic as well as non-economic. Foremost amongst them are political stability and domestic security, which have been indispensable. In the security area, for example, we defeated communist insurgency not by military means alone but also by looking at the root causes that created the problems in the first place. In this direction, the programme on winning the hearts and minds of the non-indigenous population was undertaken by assuring them that they have a stake in the country by granting citizenship to them. We can say that we have forged a largely united nation where the various communities live in peace and harmony with one another, which allow us to focus on our development.

14. In the system of governance, we chose the route of democracy, notwithstanding the imperfections that is inherent in the system. Since independence we have managed a stable and working democracy which has provided us a conducive political environment for growth. We have had ten multiparty general elections. Hitherto, the Government had always been returned to power notwithstanding the presence of a vocal and active opposition. Even though some divisive issues persist, they are generally smoothly managed within a progressive, tolerant and accommodative system of governance. In my view, the actions of our past leaders had laid a strong foundation for an inclusive and power-sharing political culture, which has facilitated the maintenance of political stability and continuity in strategic planning. With a predictable environment, we also embarked on a very strong drive to invite foreign direct investment [FDI] into our country, which provided employment, as well as uplifting their wellbeing.

15. The government on its part decided to play the role of a facilitator to spearhead private sector led economic growth. In this way, our responsibility is thus limited to ensuring that we provide the necessary infrastructure and climate which encourage and allow investments from within and from outside. At the same time, our policies have always been flexible and responsive to the needs of the private sector -whether foreign or domestic. The government then is left with strategic goal-setting and macro-economic planning together with socio- economic action plan on distributive justice and poverty eradication and giving attractive FDI incentives. Together with

this, we take a pro-active interest in exploring external market opportunities, establishing smart and strategic partnerships wherever appropriate.

16. All these policy approaches are done with one central and abiding concern in mind, that is, the need for us to remain competitive in a globalized environment. We realized early on that in the final analysis, as a trading nation operating in a free market system, Malaysia's economic survival and continued economic viability rested on our ability to compete. With globalization, national markets per se gradually continue to blur and merge into regional and global markets, the challenges confronting us can only grow. We obviously face competition in order to sell and create a market share for our products. But this does not deter us to establish networking overseas through foreign companies that operate in Malaysia. We were determined to make our goods world class and gain acceptability.

17. Because of new players in the market place, even though we had registered strong growth, we realized that we began to lose some competitive advantage in a number of industries to emerging economies like Vietnam and China where labour costs are significantly lower. This requires us to look at other options, if we want to continue to be competitive. In other words, where it is possible we would increase efficiency and productivity. This is done by increasing investment and upgrading technology. We did not rest on our laurels since we recognized we have to compete with fellow developing countries and also with developed countries. In this regard, our commitment to improve and be creative to meet the demands of the clients or would be clients is of prime importance, locally and globally.

18. In the search for new market niche, we look at other countries' experiences for us to emulate. Based on this, we decided on moving to knowledge-based economy. Other economies like Ireland and Finland had forged ahead on competitiveness rankings because they had successfully embraced the knowledge-based economy. Unless we seized this opportunity our relative global competitiveness would suffer.

Ladies and Gentlemen,

19. Having made that decision, our fundamental strategy is to develop Malaysia into a knowledge-driven economy. This is where optimal competitiveness and optimal wealth are found. We recognized that the input-driven growth of the past is providing lesser yields. Land, labour and capital are giving diminishing returns. Like the OECD economies, Malaysia has to raise total factor productivity by moving more vigorously into knowledge-based industries and services in which the economy has potential comparative advantage.

20. At the same time, we are not about to neglect or abandon the traditional production-based sector. That would be economic as well as political suicide, for much of Malaysia's population depends upon this sector. The modality is to enrich viable industries in the production-based sector with more wealth-generating knowledge capacity, to become more productive and competitive, and at the same time give more added value to our products.

21. We identified several key thrusts. Most important among these is the development of our human resources, for ultimately it is the quality and skills of our human resources that will determine our long-term economic vitality. Malaysia is therefore giving the utmost importance to upgrading the teaching-learning system, improving the training and re-training of workers, and recruiting foreign talent.

22. The single most important thrust undertaken by the Government is the radical improvement of our education system. This would allow us to develop the reservoir of skilled, qualified and adaptable workers who have integrity and moral values that a thriving knowledge-based economy requires. To support this effort, Malaysia embarks on a policy to improve critical thinking skills in maths and science. We consider these to be essential for developing an innovative and creative work-force equipped for high technology. We also boldly decided that we have to enhance the use of English language, which is the de facto global language. We believe it is the best vehicle that will enable us to access knowledge for us to operate better in a globalized environment. At this stage, in order to move forward, we accepted that a culture and infrastructure for lifelong learning is needed. We have to learn, unlearn and relearn to achieve our objective.

23. When moving from agricultural and mining based economy into an industrial based economy, we made the initial entry via producing various professionals in quantity. We then graduated to professionals with quality and then to those with integrity, values and morals. Our next thrust is into managing change.

24. In moving forward, Research and Development was given priority as a means of enhancing productivity and generate new products. We have now proceeded to encourage the development of the venture capital industry to support the financing of high-growth technology-related industries.

25. Since our country is also endowed with rich bio-diversity assets, we have the leverage to develop these assets. Towards this end, the government has established the Malaysia Bio-Valley project as another source of diversifying our economy to generate growth. With this, we hope to bring together leading researchers and inventors in the field with entrepreneurs to stimulate innovation and spawn new industries. The Valley will be located within the Multimedia Super Corridor to exploit the synergy between biotechnology and ICT. The cluster approach that has proved successful in other parts of the world will be adopted in Malaysia as well.

26. Malaysia's competitiveness strategy also places great emphasis upon regional and global initiatives to reduce barriers to trade that raise the costs of goods and services. The ASEAN Free Trade Area is an example of a successful attempt to raise the competitiveness of ASEAN member countries as an attractive destination for investment and trade within and outside ASEAN. In time, we hope a similar regime develops for East Asia. This however, does not preclude us from exploring free trade agreements at bilateral level.

27. We also accepted that there is a need for us to promote our products and our country. For this purpose, we embarked and continue to embark upon frequent and aggressive trade and investment missions abroad to give greater publicity and competitive edge to the country. These missions are often led at the highest political levels together with the captains of industry. The government and the private sector are thus able to act to complement each other for the benefit of the country as a whole.

28. As many of you know, to reach where we are today, we have bucked the trend to conform and discarded the medicine prescribed by the international financial institutions to revitalize our economy. We have challenged orthodoxy. Yet we have always been pragmatic in our approach. So far we have not been proven wrong and neither have we acted in a manner that was detrimental to our country's development plan. What I can say with certainty is that our actions have worked for us, even though the skeptics within the international financial institutions criticized us for doing so. Capital controls, for example, helped to stabilize capital flows when Malaysia was confronted with the recent regional financial crisis. The pegging of our currency to the dollar brought stability in exchange rates and gave investors an element of predictability. We emerged the better for this, as the world now recognizes.

Ladies and Gentlemen,

29. Let me now go back to the theme of this forum, namely "Thinking Globally, Acting Locally", which in my opinion can have various meanings to different people. For some economists focusing on businesses, "thinking globally" means developing "world products" like IKEA products or McDonald's efficiently, while "acting locally" means creating a world product which is sensitive towards local variations in culture, taste and preferences. It also involves management strategies that balance the need for central control with local initiative at regional and subsidiary levels.

30. Malaysia like other trading nations has to be familiar with the demands of the market place including a clear appreciation of the consumer's needs in order to compete and stay on top. We have been successful with our products such as palm oil, furniture and household electrical appliances, to name a few. Similarly, PROTON, the Malaysian car, adopts a different emblem overseas while PETRONAS operates with great sensitivity to local politics and culture. PETRONAS is indeed a success story for Malaysia. From just a humble beginning, It is now one of the leading global players in the oil and gas industry. Last year, PETRONAS was reported by the FORTUNE 500 magazine as the number one company in terms of return on equity.

31. On the other hand, for those who think in terms of national economies and not businesses however, "thinking globally, acting locally" can mean that while we think of global economic conditions, global markets, foreign investment, international competition and the like, our response is to act locally or nationally, because our capacity to act is limited to the national domain. Thus we make national policy and

national legislation in response to international conditions, and produce goods and services domestically for both the global and domestic markets.

32. As I had mentioned previously, it is no longer enough for nations to act locally while they think globally. Sovereign space is shrinking, and the capacity to act with efficacy within our borders is declining. It is becoming increasingly difficult to protect and promote national economic interests through national policies, because international institutions and international rules are encroaching into what was once in the domestic domain. A good example is the WTO and its rapidly expanding body of rules.

33. Economies therefore can no longer afford to act exclusively locally. They must act vigorously on the international stage as well. Indeed, the developed economies have already been doing this for some time now. They have acted not only locally, but globally as well. As a result, they are able to take advantage of the emerging international trade, financial and investment institutions and rules.

34. We strongly believe and had advocated for developing countries to cooperate more closely and reduce dependency on the developed countries. Developing countries must continue to collectively explore innovative ways or mechanisms to encourage trade and safeguard their interests so as not to be marginalized. It is with this in mind, Malaysia had proposed the possibility of using the "Gold Dinar" as a means of payment for trade transaction at the bilateral level and ultimately at the multilateral level. This is still at the drawing board stage as it is always an uphill battle when one wants to go against economic orthodoxy.

Ladies and Gentlemen,

35. All nations are unique and therefore, the measures needed to increase the level of competitiveness would also differ from country to country. One size does not fit all. However, looking at the past, some of the lessons that can be learnt from Malaysia's experiences are:

- Firstly, measures to increase the level of competitiveness have to take into account the cultural peculiarities and national circumstances of each individual country. The cultural aspect of competitiveness is an area in which not much research has been undertaken. This is despite the undeniable importance of cultural factors on competitiveness, given its profound effect on issues such as entrepreneurship, strategic thinking, managerial practices and business education.
- Secondly, measures to improve competitiveness must be based on a spirit of pragmatism and not on ideological considerations.
- Thirdly, a nation's competitiveness can be improved in a sustained manner only if a conscious effort is made to include all strata of society into the economic and political mainstream. In this day and age, all individuals must be given the opportunity to fulfill their potential as individuals.
- Fourthly, given the rapid changes which characterize the global economy, improving the nation's competitiveness requires that governments must have

the vision and willingness to react immediately to changes with appropriate policy responses. Such responses must be considered, consistent and perhaps most importantly, credible.

Creating a more Humane form of Globalisation: Changing mindsets

36. Undoubtedly, the task facing the developing countries is indeed a daunting one. The challenges of unfettered globalization in today's highly competitive world have manifested itself in many ways. While globalization has its own positive attributes, we cannot but help looking at it also as a process that can be highly detrimental to the interest of developing countries. Thus, we cannot avoid hearing views being expressed that globalization process is a subtle form of economic imperialism. The process of globalization is turning into a situation where the interest of the developing countries is slowly 'gobbled' away. National financial institutions like banks and insurance companies as well as hotels; hypermarkets, airline and automobile industries could easily be gobbled as it were, if deliberate counter measures, however unorthodox are not instituted. It is deeply disturbing to see many weak and small developing economies succumbing to the process with no long term prospect of ever reversing the tide because of their inability to withstand the onslaught of "gobblelization" Several developing countries in Latin America, as a result of these problems have taken the route of dollarising their economies.

37. In the case of Malaysia, due to the active measures and clear vision as well as strong political will, we were able to avoid from being gobbled up. The government, in order to prevent this possibility had instructed the banks and financial institutions to merge. In the case of companies, they were asked to restructure to avoid from being bought over by foreign undertaking at a price that did not reflect their true and potential value. With the merger and consolidation, the number of banks had been reduced to ten to enable them to compete more actively at the regional and international domain. The government for example, had taken over the Malaysia Airlines when it suffered heavy losses as a result of the financial crisis. All these are done with the awareness that the failure by the government to undertake such exercise will have an impact on the employment sector as well as the economy of the country. The different route taken by Malaysia had now put us in good stead to continue to be competitive.

38. Bearing this in mind, there is a need for a change of the mindset ,especially of those in the corridors of power and authority,be it institutions or individuals to take into account of the following elements in managing the challenges of globalization :

- Firstly, an awareness of the limitations and imperfections of the free market;
- Secondly, a belief that as a democratically elected entities, governments should be given the leeway and flexibility to decide on a course of action or policy which will result in the best outcome for its people. In this regard, I am of the view that governments have a more important role to play;
- Thirdly; an appreciation that in a complex world, no one person, institution or organization has a monopoly on wisdom and that the process of learning and adapting is a continuous one for all;

- Fourthly; a conviction that all experiences, be they good or bad are useful and that the proper channels to share experiences should be opened and maintained;
- Fifthly, a realization that globalization should be judge as a means rather than an ends in itself.

Conclusion

39. We often associate the word "competition" with negative images, where one party prospers at the expense of the other. I would like at this stage to suggest that we should emphasize on cooperation with each other to bring about mutuality of benefits as opposed to be in competition with each other. It is not a zero sum game. In an interconnected world, we can achieve prosperity for all if we work together. Indeed, there is no other option.

40. The issue at hand is not simply a matter of economic efficiency. Every government appreciates efficiency and its positive impact on the economic well being of the people. But what is at stake is a matter of fundamental principle; namely that developing countries should also be gradually given the opportunity to develop in terms of economic progress and technological capability. Global justice and fairness demands that these should no longer be the monopoly of the big and powerful.

41. Finally I like to conclude by calling all developing countries to strive and act with greater unity and cohesion. They should attempt to exercise greater influence upon the institutions and rules that are being developed in the globalized economy. They have the strength of numbers. They must use them. They must get together. They must act as one. Their maxim should be that of the powerful developed countries too: "Thinking globally, acting locally and globally".

42. As a parting thought, may be we should take notice of what St. Augustine said when relating a story of a pirate captured by Alexander the Great ,who asked him "how he dares molest the seas ?". The response of the pirate then was "how dare you molest the whole world ?" The pirate retorted with a pinch of salt by saying " because I do it with a little ship only, I am called the thief; you doing it with a great navy, are called an Emperor."

Thank you.