

Penyampai : TAN SRI DATO SERI AHMAD SARJI BIN ABDUL HAMID
Tajuk : THE GOVERNMENT LINKED COMPANIES AND ACADEMIC INSTITUTIONS OF SINGAPORE ON "POLICIES AND STRATEGIES FOR SUSTAINABLE GROWTH WITH EQUITY IN THE MALAYSIAN ECONOMY"
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First of all, I would like to thank the organisers for inviting me to speak on the Malaysian experiences in economic development. It is indeed a great pleasure for me to be given this opportunity to share with you the Malaysian success story of achieving sustainable growth with equity, and some insight into our development targets over the long term perspectives. For this purpose, I would like to confine my deliberation only with strategies pertaining to the sustainable growth and Vision 2020 which provides the future development horizon. As such my topic today is Policies and Strategies for Sustainable Growth with Equity in the Malaysian Economy.

The Malaysian development policies have undergone significant transformation in response to the changing domestic and global environment. Since achieving independence in 1957, Malaysia has embarked upon development efforts, essentially premised on a high growth strategy.

The approach chosen has been through a mixed economy with the private sector playing a dominant role and the public sector providing active support. While undertaking economic planning Malaysia has pursued market oriented policies with regard to private sector investments and activities, both domestic and foreign.

In order to achieve long-term sustainable growth with equity the Government focused its efforts on two main aspects. Firstly, the maintenance of macroeconomic stability and secondly, the socio economic dimension which emphasised growth to be accompanied by improvements in the distribution of income. The former concentrated on issues to strengthen the economic fundamentals while the latter was implemented through the New Economic Policy (NEP) which aims at eradicating poverty and restructuring society.

Macroeconomic dimension ----- Malaysia's rapid economic growth can be explained by a fundamentally sound macroeconomic stability. Private domestic investments and rapidly growing human capital, high levels of domestic savings and high investments in physical and social infrastructure were the main factors contributing to the economic expansion. Sectoral strategies, on the whole, stressed on productivity improvements. The promotion of trade liberalization and export-led growth expanded the role of the external sector which complemented the growth process.

Prior to 1970, the development policies were designed more to achieve economic growth and rural development. The economy was fundamentally primary sector based with heavy dependence on two major commodities, rubber and tin. The two commodities contributed about 70 per cent of total export earnings, 28 per cent of government revenue and 36 per cent of total employment. The Government's focus on diversifying and modernising agricultural production in the later period saw the active cultivation and the rapid expansion in the output of a range of commercial crops particularly palm oil and cocoa.

In the 1970's the Government took cognizance of the need to diversify into other leading sectors given the uncertainties in the demand of primary commodities in the world market, as well as the awareness that mineral and forestry resources are non-renewable. The manufacturing sector, which was at its infancy and concentrated on basic resource-based and simple import substitution industries, was identified as a suitable powerful engine of growth. Export promotion and import substitution were pursued in a parallel fashion with stronger emphasis on the former. Incentives were provided for firms producing food and beverages, as well as light consumer goods and to labour intensive assembly and processing industries that were primarily export-oriented. Export processing zones were established through out the country with the provision of various incentives such as tariff protection, pioneer status, fiscal incentives and provision of credit through industrial development institution and commercial banks. The manufacturing sector was also transformed with the promotion of foreign investments to develop the sector.

The openness of the economy to foreign trade, investment and technology as well as the export-led growth strategy which was more actively pursued in the 1980s, had brought about the expansion and structural change in the economy. Malaysia was able to broaden and strengthen the economic base by the end of the decade. The share of manufactured exports began to increase as the share of primary commodities in total merchandise exports fell during the decade. The economy was basically private-sector driven and they responded positively to the opportunities for growth and investment.

I noted with pride that this export-led and private sector driven strategies have been identified by the World Bank as the factors contributing to the growth miracle of the East Asian countries. The study which covers eight High Performing Asian Economies that include Singapore and Malaysia also highlights other common features.

One of them is the existence of macroeconomic stability in which inflation, budget deficits, external account and exchange rates are the key elements in the management of macroeconomic fundamentals. Malaysia, for one, has always been wary of inflation as it is seen as a source of uncertainty, instability and inefficiency with its distortionary effects on planning and decision making.

Another aspect is fiscal position in which the Government strives to ensure deficits are held at levels that could be prudently financed and the external debts are maintained at manageable levels. The country also pursues policies to ensure a healthy external account and exchange rates stability. The adherence to these fundamentals is also reflected in the rapid response to a variety of macroeconomic shocks. The swift actions taken to restore stability has assisted the country not to suffer from any prolonged recession or dampening development. This is true even when the source of macroeconomic instability is policies originally intended to promote growth in the real economy. For example, in overcoming the twin deficits and recession in mid 1980's, Malaysia had installed structural adjustment policies.

These adjustment measures included restraining public sector expenditure to reduce budgetary deficits, adopting a private-sector led growth strategy, introducing economic liberalization and deregulation and improving investments policies and incentives to promote private sector participation. In order to further accelerate growth, government undertook several administrative and institutional reforms to upgrade efficiency of the public sector. Privatization of public sector activities, agencies and enterprises were introduced to reduce the government's financial burden as well as to improve the efficiency of these enterprises.

The pragmatic approach of the nation has seen Malaysia achieving a rapid growth except during the short stint of the recessionary years of 1985-86. A major success was the overall high growth was accompanied by the transformation in the structure of the economy. The manufacturing sector became the main contributor to the economy and the services sector expanded in parallel to the overall expansion of the economy. The budget deficit was almost eliminated in 1990, the external debt was reduced dramatically and the balance of payment turned into a surplus position. The contribution of the private sector surpassed that of the public sector, turning the economy from a public-dominant into a private-sector driven economy.

Socio-economic dimension ----- A more prominent feature is that this success is combined with a highly equal income distribution. Unlike the position in early 1970's in which there was a wide prevalence of poverty and income disparities, there is a much more equitable distribution of income among the various ethnic groups and regions in the country in 1990. The implementation of the strategies to eradicate poverty and restructure society under the NEP has brought about this improved situation.

This fact demonstrated that policies and strategies which focused on growth without sufficient regard to the need of the poor and the imbalances that existed among the races would result in an unbalanced and unsustainable development. Indeed, the persistence of the early 1970 position with about half of the Malaysian population living in poverty and the poor are mainly concentrated among the Bumiputera was unsustainable. The pronounced imbalances in the ownership of corporate equity, with Bumiputera who formed more than half of the total population owned only 2.4 percent while other Malaysians owned 32.3

per cent and foreigners owned 63.3 per cent in 1970, had easily breach the society's fragile equilibrium.

This policy weaknesses led to a critical assessment and a major shift in the focus of development policies. The NEP introduced in the Second Malaysia Plan (1971-75) was the cornerstone to the dramatic changes to follow, both socially and economically. The ambitious policy was established to provide a united, socially-just, economically equitable and progressive society. The basic philosophy was growth with equity with national unity as the overriding objective.

Strategies introduced to eradicate poverty and restructure the Malaysian society was adopted by providing opportunities for the poor to participate effectively in the growth process. The strategies were developed along the process of rapid growth, where the poor were encouraged to increase their productivity through the adoption of modern techniques and to actively participate in the modern services sector. The Government undertook direct intervention in the restructuring of society. This was implemented through the creation of specialised agencies to acquire economic interest and hold in-trust for Bumiputera and entrepreneurial development programme. In order to support both the NEP objectives, education was effectively used as an instrument to provide opportunities for the Bumiputera.

The policy resulted in the achievement of rapid economic development and substantial growth in income accompanied by a significant reduction in the incidence of poverty. The proportion of households living below the poverty line declined from 49.3 per cent in 1970 to about 17 per cent in 1990. A more represented equity ownership was brought about though the Bumiputera had not achieved the 30 per cent target by 1990. Nevertheless, the progress made by them has been substantial. In terms of growth rate, Bumiputera equity ownership grew by an average of 29.6 per cent per annum during the NEP period, higher than the average of 16.3 per cent for the corporate sector as a whole. This growth was contributed mainly by the trust agencies and institutions. The other Malaysians had also benefitted from the policy and increased their share from 32.2 per cent in 1970 to 46.2 per cent in 1990.

Although Malaysia embarked on an ambitious socio- economic programme, liberal policies with regard to private and foreign investments remained. Restrictions imposed to ensure a more equitable distribution of wealth and employment were pragmatically implemented. This flexibility has generated confidence and as such has created dynamism in private and foreign investment activities. On top of this, the openness to direct foreign investment has speeded up the technology acquisition and this has greatly contributed to the modernization and increased productivity of the economy.

POST 1990 PERIOD ----- Now, let me turn to the future development. As you might have heard, we have launched Vision 2020 which reflects the desired direction of growth for the next thirty years. It envisions Malaysia to achieve an industrialised and a fully developed nation in her own mould. The key to the attainment of this aspiration is overcoming the nine strategic challenges.

First, the establishment of a united Malaysian Nation made up of one Bangsa Malaysia with a sense of common and shared destiny, at peace with itself, territorially and ethnically integrated, living in harmony and full and fair partnership, with political loyalty and dedication to the nation.

Second, the creation of psychologically liberated, secure and developed Malaysian society with faith and confidence in itself, justifiably proud of what it has accomplished, robust enough to face all manners of adversity.

Third, the fostering and development of a mature democratic society, practising a form of mature consensual, community-oriented Malaysian democracy that can be a model for many developing countries.

Fourth, the establishment of a moral and ethical society, whose citizens are strong in religious and spiritual values and imbued with the highest of ethical standards.

Fifth, the establishment of a matured, liberal and tolerant society in which Malaysians of all colours and creeds are free to practise and profess their customs, cultures and religious beliefs and yet feeling that

they belong to one nation.

Sixth, the establishment of a scientific and progressive society, which is innovative and forward-looking, one that is not only a consumer of technology but also a contributor to the scientific and technological civilization of the future.

Seventh, the establishment of a fully caring society and a caring culture, a social system in which society will come before self and the welfare of the people will not revolve around the state or the individual but around a strong and resilient family system.

Eight, the development of an economically just society, in which there is a fair and equitable distribution of wealth and has no identification of race within economic function ; and Ninth, the establishment of a prosperous society with an economy that is fully competitive, dynamic, robust and resilient.

The Malaysian Economy in 2020 ----- The first stage towards attaining the Vision is through our long and medium term plans, the Second Outline Perspective Plan (OPP2), covering for the period of 1991-2000, and the Sixth Malaysia Plan (6MP), covering for the period 1991-95. In both of these plans, policies and strategies have been set out in order to lay the foundations of achieving the goals of the Vision.

Some broad macro-economic targets have been established to guide the sustainable growth of the economy.

The Vision requires the achievement of a sustained growth of output at the rate of 7 per cent per annum, over a period of 30 years, which is equivalent to an eightfold increase in GDP. The per capita income is expected to increase by fourfold with significant gains in the quality of life in the form of better standard of health, nutrition, housing, education and other amenities to be enjoyed by the population. We feel that these targets are not beyond our means because we have been growing at an average rate of 6.7 per cent during the last two decades with significant improvement in the standard of living. Therefore, if we maintain our present economic stance combined with other appropriate complementary policies, both the quantitative and qualitative targets of the Vision are attainable.

The Vision also envisages a continued structural transformation. Growth will be primarily led by the manufacturing and modern services sectors. By the year 2020, the manufacturing sector will form about 40 per cent of GDP compared to 27 per cent in 1990, while the services sector will account for about one-half of GDP. The agriculture sector is expected to reduce its size to 6 per cent of GDP but it will be transformed into a modern, highly productive and efficient sector, managed on market principles and producing high value added crops.

To support the desired transformation of the economy, investment will have to grow at an average rate of 11 per cent per annum over the next three decades with an increasing portion derived from the private sector.

Although the investments will increasingly be sourced from domestic savings, envisaged to be 35 per cent of GNP by 2020, foreign direct investments will continue to be important, especially to spur the growth of high-tech industries and the tradeable services sector as well as to complement domestic investments.

On the external side, our exports have been growing at a double-digit growth rate of 14.7 per cent since 1971 to 1990. To achieve the Vision, our exports will need to grow at an annualised rate of about 10 per cent over the next 30 years. This implies that Malaysia's exposure to international trade will increase and the economy will be more open in comparison to many developed economies.

We realize that the external environment towards the year 2020 is a volatile one. It is envisaged that globalization of the world economy in terms of trade and investment will become more evident with rapid advancements in transport, communication and information technologies and, therefore, intensify

competition. The increasing trend towards regionalism in trade and economic relationships will also make it imperative for small open economies like Malaysia to adapt effectively and speedily to the consequent challenges to maintain their competitive position.

Policies and Strategies Towards Achieving Vision 2020 ----- In order to meet the challenges and seize the opportunities provided by the developments in the international economy, Malaysia must first build its economic strength and ensure continued political, social and macro-economic stability. This includes sustaining long term price stability, ensuring proper alignment between productivity and wages, improving our capacity to generate a high level of domestic savings, sustaining a high level of exports and upgrading factor efficiencies.

Maintaining Long Term Stability ----- Malaysia has an excellent track record of low inflation for the past three decades. One of the elements in the maintenance of price stability is the development of wages. It is essential that wage increases correspond to increases in productivity to prevent wage push price pressures on the economy. Thus, for long term macro- economic stability, continuous increases in productivity as well as maintaining a healthy balance in the fiscal position and external account will be pursued in addition to sustaining a manageable level of debt and a stable exchange rate.

Generating Internal Strength via Savings ----- Sustained growth during this period will also hinge on the ability to generate a high level of savings and to channel them into productive investments. Malaysia has set a savings to GNP ratio of 35 per cent as a target to be attained by 2020. Such a rate of savings, combined with a net inflow of foreign capital amounting to 3 to 5 per cent of GNP, will yield a yearly investible fund of around 38 to 40 per cent of GNP. Since desired investment is determined at the level of 33 to 35 per cent of GNP, this will leave a yearly surplus of around 5 per cent to GNP. Such surpluses will be used to finance Malaysian reverse investment activities.

The development of a modern, effective and efficient financial institutional framework, as well as money and capital markets will be in line with the progressive growth of the economy. While the banking system, stock market and the Government securities market will improve further in terms of scope and depth, the private debt securities and derivatives markets will also witness rapid growth. The further development of the Islamic financial system in Malaysia to function parallel to the conventional system will be another interesting feature of the capital market.

Meeting Labour Requirements ----- It is projected that Malaysia will have a population of 32 million people by 2020 with the labour force size expected to be around 15 million. A more crucial issue is the supply of the appropriate type of labour to meet the challenges of the Vision. It is anticipated that there will be a sharp increase in the demand for engineers, technicians and R&D scientists in order to support the industrialization drive as well as anticipated increase of indigenous R&D activities in high technology.

The Government has undertaken several measures to increase skilled manpower by focusing on the strengthening of the educational and training system, especially the provision of vocational and technical education to meet skill requirements in the industrial and commercial sectors.

The setting up of a Human Resource Development Fund to create a training culture within local enterprises and encourage skill formation will accelerate the process of skill formation.

External Strength and Export Competitiveness ----- Malaysia will need to maintain long term export growth of 10 per cent per annum. This rate of growth within the context of an increasingly competitive world economic environment will require increased competitiveness of Malaysian products. In addition to ensuring adequate amount of capital investment and other factor input, efforts have to be directed towards improving efficiencies and product qualities. To increase the ability to produce new and better products, research and development (R&D) will be encouraged.

Strengthening Interlinkages within the Structure of Production

----- Greater interlinkages between the various sectors of the economy will enhance the multiplier effects of economic activities via forward and backward linkages, reduce import dependency and enhance economic resilience by reducing vulnerability to external shocks. The linkages between the primary and manufacturing activities will be strengthened by encouraging the development of resource based industries.

Support given by the service sector to the primary and secondary sectors will also have to be increased.

Another type of interlinkage that has to be enhanced is between the foreign-owned sub-sector with domestic corporations and SMIs. Such weak interlinkages is reflected in high levels of imports of intermediate goods, resulting in poor net export earnings from manufacturing sub-sectors which are dominated by foreign interests.

Extending International Linkages ----- In addition to enhancing internal linkages within the economy, Malaysia will also continue to enhance linkages with external markets, created automatically by current trade relations and by our willingness to host MNC operations. For the future, these will be enhanced by engaging in joint activities with foreign partners, undertaking Malaysian foreign direct investments in markets abroad, improving shipping, communication and other physical networks, and by nurturing the creation of trading companies to act as the nation's 'flag-carriers' in overseas markets.

Malaysia's manufacturing export activities are currently concentrated more to meeting the requirements of the European and American markets and exports to East Asia is still skewed towards the exports of raw industrial commodities or semi-processed materials. The East Asian market for processed foodstuffs, consumer durables and non-durables, transport equipment and other items for which we have built or are building a comparative advantage offers a lot of untapped potential.

This potential can be realised if greater market linkages are developed with potentially large consumer markets in China, Japan and Vietnam. The creation of the EAEC as well as the geographical proximity, ethnic and cultural ties that we have with these regions can be usefully employed to enhance such linkages.

These development efforts will be undertaken without forgetting the distributional aspects. There will be greater reliance on the private sector involvement in the restructuring process. The focus will be more on human resource development including moral and ethical values in order to achieve the objectives of growth and distribution.

In order to increase meaningful participation of Bumiputera in the modern sectors of the economy, the focus will now be on the strategy of employment and more rapid development of an active and entrepreneurial Bumiputera.

Malaysia has attempted to reconcile greater equity with rapid growth. Experiences showed that rational planning, consistency and perseverance in the implementation of policies and strategies, the ability to send the right signals to the private sector and quick and pragmatic response to changing circumstances and political support are among the key ingredients to the achievement of our economic success thus far.

To achieve sustainable growth with equity is the desired goal of many economies in the world. Unfortunately different priorities and implementation difficulties have enabled many countries to attain high growth without the benefit of equitably sharing the wealth accumulated. Many developing countries have grown fast for several years, particularly in the 1970s, but few have been able to sustain high growth for three decades. This achievements, among others have made the East Asian Miracle Study, seems closer to the heart as East Asian economies have proven that our Asian ways, and our clear perceptions to our problems and our commitments to solving them have carried us a long way ahead of many nations in the world. With or without the miracle study we know that the characterised success of the Asian countries are their rapid growth and declining income inequality.

Last but not least, Malaysia's sustained growth record was made easier by the political stability it has enjoyed over the last two decades. This has provided a conducive and confident environment for domestic as well as foreign investment. The peace enjoyed has also resulted in uninterrupted growth and the opportunity to focus the nation's efforts and resources on nation building. Perhaps with these efforts we will continue to achieve rapid growth and reduced inequality when we reach the status of a developed nation.