

Sub-theme: Identifying Asia's Engines for Economic Growth



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Introduction

Ladies and Gentlemen,

Asia today is very different from the Asia that was known to the world in the early 1990s. Then, the so-called tiger economies of Asia were largely spoken of in superlative terms, and the phrase “economic miracle” was coined to describe the robust growth records and prospects for Asian countries. It seemed then, that after decades of toil and sweat, Asian countries, some more so than others, had finally succeeded in ridding itself of the shackles of its colonial past and had indeed come into its own. No longer was Japan the only economic success story of the east. South Korea, Hong Kong, Taiwan, Thailand and Malaysia had all become economic dynamos in their own right and many began predicting the arrival of ‘The New Asian Century’.

The summer of 1997 however, brought with it a rude awakening for Asia. It seemed that overnight, all that had been achieved in the preceding decades, had been blown away. Beginning with the attack on the Thai Baht in 1997, the awesome and devastating power of currency speculators were unleashed on Asia, precipitating the Asian economic crisis. Suddenly Asian countries found themselves impoverished as their currencies became increasingly worthless.

Malaysia of course overcame the crisis by instituting unconventional measures. The government established the National Economic Action Council, which played an important role in overcoming the crisis. We were determined not to resort to IMF assistance, whose standard prescription and measures, we felt, would further worsen the situation and place a stranglehold on the economy. Led by the then Prime Minister Datuk Seri Dr. Mahathir Mohamad, Malaysia stunned the world when we implemented capital and currency controls.

No one, however, expected that even more uncertainties would emerge so soon. Still reeling from the after effects of the economic crisis, Asia was again dumbstruck by the terrorist attacks on the World Trade Centre in New York on September 11th. To borrow a phrase from Franklin Roosevelt, it was a day that will live on in infamy. It was a singular event that irrevocably altered the global geopolitical landscape and brought in its wake uncertainties that have not been experienced since World War II. Economies were affected as a fear-gripped world preferred not to leave their own shores.

For manufacturing-based export-driven economies like Malaysia, the situation was made even worse when tumult broke out in the Middle East, first in the form of conflict in Afghanistan and later the war in Iraq. And it was almost too much to bear that just as attempts were being made to recover from all these negative

developments, along came the SARS virus which threw a spanner in the works.

The history recounted above, if nothing else, serves to illustrate to us the need for Asia to re-think its position. The impact of all these events has irrevocably changed Asia, for certainly, being part of a globalized world, it would be unlikely that Asia would be unaffected and unperturbed by events happening elsewhere in the globe. And very likely, regional developments may also lead to adverse circumstances for Asian economies. Therefore what is required is for Asia to function in a way that it would be able to withstand external and internal shocks.



Ladies and Gentlemen,

Asian economies must be sufficiently insulated against external shocks, and poised to take on future challenges, if Asia is to retain its pre-crisis status and vitality as a global economic growth centre. Key to achieving these objectives would be the strengthening of domestic demand and capacity, and the development of the human resource potential within our economies.

Strengthening Domestic Demand and Capacity

Asia's pre-crisis glory was a result of the potent combination of good and prudent management, strong human resource capabilities and an abundance of FDI inflows into the region. For FDI, the wealth of natural resources and competitive skilled labour made Asia a natural destination for FDI. While FDI continues to be an important element to Asia's growth, the region's dependency on it alone as a growth generator must be reduced. Failing to do this would mean continued vulnerability to global economic cycles, where turmoil often leads directly to capital flight and the drying up of FDI.

The strengthening of domestic demand and capacity must therefore be given a new impetus. Entrepreneurship must be encouraged and local businesses and enterprises must be given the necessary assistance to enable them to grow and flourish, Malaysia recognises this reality and, in May this year, we introduced a Package of New Strategies to promote private investment, including the further development of small and medium enterprises (SMEs).

In addition to this, the government, recognising the decline in international capital investment inflows and intensifying competition for FDI, has taken the move to be more assertive in promoting domestic investment.

Having said all that, it should be borne in mind that while it is imperative to strengthen domestic demand in the face of declining FDIs, the fact remains, as I have said, that FDIs will continue to be an important contributor to economic growth. FDI is still much needed in many parts of Asia, and the situation is not set to change any time soon.

Ladies and Gentlemen,

An important source of growth and foreign exchange earnings for many Asian economies, and certainly for Malaysia is the service sector. For many Asian countries, the potential for growth in this sector is still far off from being fully exploited to produce high value added services. Asian economies must now undertake significant efforts to attract FDIs to the services sector.

In Malaysia, for example, we have acted to relax equity conditions and provided a host of tax incentives to attract service-oriented companies such as Operational Headquarters (OHQ), Regional Distribution Centers (RDCs) and Back-room outsourcing operations by multinational companies.

Of course there is still much room for improvement in enhancing the services sector in Malaysia, as is the case with the rest of Asia. Infrastructure must be strengthened and competencies and efficiencies must be enhanced in order to pull in the big players in the services sector.

Developing Human Resources Potential for Economic Growth

Ladies and Gentlemen,

Asian economies should by now understand that the maximisation of their human resource potential would be pivotal in generating economic growth. In a world that has undergone and continues to experience an explosion of technological advancements, no country or region can afford not to have an army of well-

trained highly skilled workers to cater to the burgeoning technology driven industries.

Many Asian countries have done very well in providing highly skilled labour. In fact, it was the ability of providing this kind of labour at a relatively low cost that led to Asia's natural appeal as the ultimate destination for investments, especially in the manufacturing sector. Indeed it was a key component in the emergence of the so-called Asian economic miracle about a decade ago in a number of countries in the region.

But clearly more has to be done. It is becoming increasingly clear that the ability to provide skilled and comparative labour alone would be insufficient to ensure continued economic growth. Again, the great shadow of China is ominously present. Competition from China's inexhaustible supply of skilled, and lately, increasingly multilingual workforce, poses quite a challenge to all of us in the region.

In addition, to facilitate technology transfer in totality, providing the labour alone is insufficient. Asia must shift from becoming technology "parrots", consumers and manufacturers, to become innovators and creators in our own right. Asians must start to become technology drivers with homegrown technologies that have global potential. To date, among all the countries, only Japan can claim to be a nation of technological innovators and breathtaking advancement, whilst Korea is catching up fast.

Surely this situation is not satisfactory. Indeed Asia must breed a new generation of workers who are not only manually skilled, but also workers who have the intellectual capacity to master knowledge and re-apply that knowledge in creative and innovative ways. They must be resilient and easily adaptable to changing global circumstances. They must have global appeal. Only then can they be described as "knowledge workers" in the truest essence of the phrase, thereby becoming real contributors to the economic growth.

Ladies and Gentlemen,

Naturally, the most essential requirement in producing such knowledge workers would be to provide the appropriate education and training. The fact of the matter is, Asian countries cannot escape from the reality that they must focus more effort than ever before in ensuring the ability to constantly generate a pool of competitive and resilient knowledge workers, in the face of changing global trends and escalating competition.

Towards Better Regional Cohesion

Ladies and Gentlemen,

I have spoken of strengthening domestic demand and capacity, as well as developing human resource potential as two components necessary for Asia's future economic growth. These are a few broad strategies, which Asia can adopt in facing the significant challenges that lie ahead. But at the heart of Asian prosperity lies the need for better regional cooperation, a strengthened Asian cohesion.

More than a decade ago, Malaysia's Prime Minister then, Dato' Seri Dr. Mahathir Mohamad, proposed the establishment of the East Asian Economic Group (EAEG).

Today, many see the formation of a similar group as absolutely necessary for the benefit of Asia. Within the region, we can see the fruitful ties among ASEAN countries, and similar framework for cooperation can be established to incorporate the rest of Asia. Malaysia has always believed that Asia has within the region all the necessary elements required to enable it to withstand any challenges.

Ladies and Gentlemen,

The collective objective of Asian countries must now be to strengthen the region and to improve the lives of our people. There is an enormous gap between the West and East in terms of economic development and progress. We must now work towards narrowing that gap, and elevating the quality of life for our people. This is not unattainable. If we capitalise on our strengths as a region, and if we work together, we can achieve wonders.

The dream of the New Asian Century has been interrupted by the Asian economic crisis and the events that have unfolded over the last few years. The dream however is still very much alive. Asia has recovered Asia can and must return to its old footing and we can become the engines of global economic growth as we once were. We have spoken of strategies, and we can implement these strategies to achieve our objectives. But the onus is not just upon the governments of the day in the various Asian nations. It requires the private sector. Civil society working together with the various governments in order to achieve this objective. Since this is a long term objective, the burden must also be carried out by those who will inherit leadership in their countries: the younger generation of every nation in Asia. I hope those present here for this 6th Hitachi Young Leaders Initiative forum will come away from this event with their minds and hearts inspired towards pioneering a new era of closer and better ties among Asian countries. I hope that this will be an important step towards a stronger Asia.

Thank you.

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