

THE SECOND LANGKAWI INTERNATIONAL DIALOGUE

LANGKAWI, KEDAH, 29 JULY 1996

I would like to welcome all the participants to the Second Langkawi International Dialogue on Smart Partnership. This second meeting is made more significant by the presence of so many prominent leaders and Chief Executive Officers (CEOs) including H.E. President Robert Mugabe of Zimbabwe and H.E. President Sam Nujoma of Namibia. The CEOs and high executives represent many well-known business corporations all over the world, both from the Commonwealth as well as non-Commonwealth countries. I must say that the interest and the support for the Langkawi Dialogue has become very significant indeed and I do hope that positive results will crown this innovative conference which has as its general theme 'Smart Partnerships'. There is here an element of social objective in addition to those of purely commercial concerns. It is hoped that it will inject new ethics into the business world, or at least a better understanding of the role of commerce and business in the life of the ordinary citizens of our countries.

2. We believe that business should be mutually beneficial to the parties concerned while at the same time it should contribute to the good of the peoples and the nations, whether they are involved or not involved. In other words business should enrich our world and help to relieve poverty and distress everywhere, even as profits are made and enjoyed.

3. Last year when I spoke at the opening of the first Langkawi Dialogue, I told about how Malaysia bucked the trend. When we achieved independence we not only did not seize foreign-owned businesses from their owners, we actually encouraged them to stay and to invite new foreign businesses to come to Malaysia. As a result there were many more white colonial faces after independence than before independence.

4. Later though, when we had enough money we bought up many of the big foreign-owned estates and mines. We did this on the London Stock Exchange mostly, mounting a spectacular dawn raid in the case of one very well-known company.

5. This we did legitimately without breaching any of the rules or practices of the 'haloed' London Stock Exchange. Nevertheless we were accused of 'Back Door Nationalisation'. Forthwith dawn raids were made illegal. But no matter, we continued to buy up foreign companies as and when necessary. Fortunately for us we can still do even now.

6. The point I am trying to make is that we did not do the conventional thing on attaining independence. We went the

opposite way instead. And as events showed we fared quite well and certainly we did not lose out.

7. But that was not the only occasion when Malaysia bucked the trend and rejected conventional wisdom. We have done so in many areas. None however was and is as untrendy as the adoption of the concept of Malaysia Incorporated, i.e. the close cooperation between the public and the private sectors in the development of the country through business. Since we are interested in smart partnerships, I hope you will excuse me if I talk about Malaysia Incorporated as an example of smart partnerships.

8. For ages it had been assumed that the primary duty of Government, the public sector, was to oversee the selfish pursuit of personal and corporate gains by those in business. The private sector was regarded as being avaricious, caring nothing for the people and the nation while they pursue maximum profits. They were the bloodsuckers who more than thrived on the sweat and toil of their workers and their swindling of the public. The more these business people were frustrated, the better it was for society and the nation. It was the duty of the Government and those working for it to put as many obstacles in the way of business as possible. Indeed never do today what you can do tomorrow. One Malaysian Ministry actually adopted as its slogan "To be inefficient is efficient".

9. We know of course what Karl Marx thought of private businesses and businessmen. His preaching led to the formulation of the Communist and Socialist ideologies. The Russian took 70 years to find out that the people did not get all the riches through state control of all the means of production. The only thing that Communism actually distributed equally was poverty.

10. I suspect however that had there been no threat from the spread of Communism, Capitalism would have remained exploitative. But fear of Socialism and Communism resulted in reforms in the capitalist system which reduced exploitation and spread the wealth to workers, shareholders and consumers alike. In addition, Governments benefitted through corporate and personal income taxes, which of course helped to spread the benefits of the profitability of private enterprise to civil servants and the public through salaries, infrastructure and development projects.

11. The reforms in the capitalistic system reduced the ugliness of personal capitalism. More and more of the individual and family-owned companies became public limited companies whose shares were owned by all and sundry. The

founders and the original owners of these companies gradually lost control to new shareholders and professional managers. In many cases only the name of the founders remained, while none of their heirs owned even a single share. Obviously ownership has not only been more spread, but has also become more equitable as a result of evolutionary reforms.

12. These changes resulted in the unprecedented prosperity of the non-Communist countries. Though the Communist still referred to them as capitalist countries, they have in fact evolved into market economies, where market forces and not capital per se determine the performance. If the market supports the enterprise then capital will be readily available from the bank or from the public. In fact it is not so much the capital which is the determinant of an enterprise. Ideas and the resultant products determine the founding and the success of business.

13. The equitability of state-owned enterprises seems socially attractive. Control of the means of production however did not result in wealth accruing to the State or the people. Equal earnings are a disincentive to productivity. If the wages are equally high for everyone, the cost of products will go up and the wage-earners cannot buy much more than if wages are equally low and products are sold at a low price. In fact in a Communist or Socialist command economy, money becomes quite irrelevant due to the subsidies being given for everything. The present problem for the adoption of the free market system by ex-communist countries is due to the distortion of prices and earnings resulting from subsidies provided by the state.

14. Malaysia rejected Communism for ideological reasons but found some aspects of socialism attractive. Hence the proliferation of state enterprises at a certain period of Malaysia's independence. State enterprises became particularly attractive as Malaysia faced the problem of inequality in the development of the different races making up its population.

15. More than two thousand Government-owned companies and statutory bodies (known as para-statals in many Commonwealth countries) were set up. Billions of dollars were poured into these companies. In fact they received capital injections every year through Government budgets as they never seemed able to generate funds internally to enable them to expand. But invariably they, like Government departments, made out a case for expansion all the time in order, as they claim, to fulfil their unwritten social obligations.

16. Run by civil servants very much in the way civil servants run government departments, most of these Government-owned corporations merely got in the way of private enterprises even

as they failed. But worse than that they often spawned subsidiaries which also failed miserably.

17. In 1982, after Malaysia's affirmative action New Economic Policy had succeeded in throwing up a fair number of able businessmen from among the economically backward indigenous people, the Government decided it was time to switch strategy.

18. And so the State, i.e. the Federal Government and the Governments of the 13 states were asked to cease setting up more Government-owned corporations. Instead the private sector would be asked to take over these corporations and certain Government functions and activities. And so privatisation was begun in earnest.

19. When Malaysia adopted the privatisation programme in 1982, few countries had espoused it. Consequently there was no model to follow. The going was very tough, especially the resistance on the part of Government employees in the entities to be privatised. This was overcome by guaranteeing the right to choose between Government wages and company pay schemes, no retrenchment and wages not inferior to Government wages at all times.

20. But the greatest obstacle was the dislike of the civil service to give up the departments and authority they had been wielding and to avoid harassing these entities once they have been privatised. The civil service could really make life miserable for the privatised entities.

21. We must remember that the Government as a whole and the civil service in particular regarded the private sector as their natural enemy. They had always made things difficult through their complicated bureaucratic procedures. They never considered the private sector as contributing towards nation building or the welfare of the people.

22. The taxes that these business enterprises paid were just dues to be collected as a kind of punishment for their making so much money for themselves. They paid the taxes because they selfishly made a disproportionate amount of money for themselves. They, the private sector, were sharks. While Government servants got so little by way of salaries, every approval by the Government results in millions for the private sector. The approving authorities got almost nothing from these millions.

23. This was the perception by the civil service of the private sector and their wealth. If they want the civil service to service them, they should come crawling to the

civil service. And indeed even the lowliest of civil servant assumed a higher status than the most successful businessman.

24. And the views of the private sector were no better. Away from the civil servants, they established their own exclusive society. They may be polite to the civil servants but they always managed to imply that the civil servants were failures, poverty stricken and inferior to them. They managed to create an impression that although the civil servants may think they were superior, they were in fact inferior. And they suggested that all civil servants are corrupt and incompetent.

25. Then there were the politicians, the elected members of the Government. Neither the administrators nor the business community liked the politicians, each for their own reason. And the politicians did not like the administrators or the businessmen either. And they vented their dislike through carping criticisms of the administration and the business community in their debates, siding with their electorate whether they were right or wrong.

26. Clearly no love was lost between the public sector, the private sector and the elected Government. How anyone could expect a Government to function at all is amazing. What should prevailed and what nearly always prevail is something close to undeclared civil war and anarchy. And the people have to pay and when they go to the polls they were merely perpetuating anarchy. Truly the situation was ridiculous.

27. The Japanese decided that civil servants should cooperate with the business people. As soon as Japan showed signs of prospering, this cooperation was condemned. Japan was accused of being Japan Incorporated, which for some reason or other carried a stigma. Apparently the right thing was for the civil service to fight and undermine the private sector. Japan Incorporated was roundly and repeatedly condemned.

28. Malaysia, being naive, did not understand why a cooperative attitude which leads to economic success for the nation should be stigmatised. What is wrong with businesses being profitable or businessmen being rich? Profits and personal income are taxed by the Government. Obviously if profits are low Government would get less tax. And if companies lose money Government get nothing at all. So why shouldn't a Government help the private sector to make money? Why shouldn't civil servants help the private sector to make money? Who really pays the salaries of civil servants anyway? Who pays for the running of the Government, for the development of the country, if not the business people? The poor pay practically no tax. If everyone is poor how do we run

Government, pay salaries and develop the country for the benefit of the people, i.e. the electorate?

29. And so once again Malaysia decided to buck the trend. We decided to officially adopt the concept of Malaysia Incorporated. We decided that everyone, civil servants, business people and members of the elected Government should cooperate with each other in order to enhance business success and help support the country's development.

30. Many people including the civil servants were horrified. They see the corruption of the civil servants and the ministers, in particular the Prime Minister by the business people. These moneyed people would be too close for comfort. Associating closely with them would undermine the dignity of the civil servants etc.

31. Actually corruption is more likely when civil servants keep away from businessmen and tie up everything in red tape. Frustrated with the delays, the more enterprising and brazen businessmen would offer bribes. But if all business people have easy access to civil servants, deliberate delays become more difficult. If everyone gets attended to quickly there would be less reason for bribes.

32. One of the best evidences of corruption is things not getting done. When things are done, and done quickly and efficiently, corruption cannot have got in the way.

33. The open association between businessmen and civil servants as well as politicians render their business more transparent. Again corruption becomes more difficult.

34. Of course there is the feared Anti-Corruption Agency. Although they are themselves accused of corruption, only those who are corrupt need fear them. Those who are not corrupt can always talk loudly in an open society if the ACA tries anything funny.

35. The Malaysia Incorporated concept is working well in Malaysia. Privatisation has succeeded because civil servants are no longer antagonistic towards the management of the privatised entities. They work with these entities and help them to achieve success.

36. Thus when the North-South toll expressway was privatised, the civil servants did not obstruct and delay the project. Instead it was completed one year ahead of time with quality that is second to none.

37. The Telecoms Department used to receive RM100- 200 million every year from the Government. After privatisation Government was relieved of the burden of financing it. Instead the privatised Telecoms Malaysia Bhd earns huge profits every year and the Government receives both dividends and corporate tax.

38. There are other factors which contribute towards the success of privatisation in Malaysia. But there can be no doubt that cooperation with the business community on the part of the political leaders of the Government and the civil service contributed a great deal. Although privatised, telecommunication and road transport continue to need supervision. Consequently, a number of the officers in the Telecoms Department and the Road Transport Department have to be retained to do the supervision. As Government servants their pay is generally lower than that of the executives in the privatised entities. Yet they must wield some authority over the privatised service. They can easily obstruct the work of the privatised entity and lift the obstruction only if they get something.

39. But the elected political leaders in the Government cannot afford to let the privatised entities fail. They would come in for massive criticism from their electorate and from the workers in the privatised companies. Their detractors would bray that they had been right in condemning the privatisation policy. They must therefore put things right if the privatised entities looked like failing. If the civil servants seem to be the cause, corrective action under the Malaysia Incorporated concept would be instituted. But this kind of situation hardly ever happens. Under the Malaysia Incorporated concept civil servants have become helpful rather than obstructive.

40. But the detractors of the Government are not willing to acknowledge the success of the Malaysia Incorporated concept. They had condemned it along with privatisation and so they must insist that although the cooperation between the civil servants, the businessmen and the politicians under the Malaysia Incorporated concept appears to be delivering results, actually it did not; actually it is only coincidental, an accident, the result of corruption on the part of the politicians, especially the ministers, more especially the Prime Minister.

41. Just about any businessman who succeeds is described in lurid terms as having done so because he is a friend of the Prime Minister. That in Malaysia very many who do not know the Prime Minister also succeed is ignored. That very many who are close to or even related to the Prime Minister have never succeeded, have remained as poor as the proverbial church mouse never gets any publicity. Friendship or closeness to the

Prime Minister is made out to be the sole reason for business success in Malaysia. Without directly saying the Prime Minister is corrupt, the detractors manage to imply that the Prime Minister is corrupt.

42. The fact is that if the Malaysia Incorporated concept is to work the civil servants and the political members of the Government must be close to the businessmen and must actively help to solve their problems. For example, a businessman may have a wonderful idea for a project that will benefit not just himself but the country as well. Under the old non-cooperation system he could only present his project to the most junior of officials.

43. The junior officials, thinking only about approving or not approving may very well reject the proposal. There may be valid reasons for rejection. It may not be because of just wanting to be difficult, to be dilatory in order to encourage bribery. The reason may be that the project does not fulfil all the conditions necessary. The rejection is both legitimate and right. But nevertheless a perfectly good project which can benefit the country has to be abandoned.

44. Under the Malaysia Incorporated concept the story does not end there. The promoter may meet more senior officials to ask for a proper presentation. He may even contact a Minister or the Prime Minister, all of whom are accessible under Malaysia Incorporated. It is entirely possible that a proper presentation would reveal the beneficial effect of the project, not least is the fact that the project can be profitable and can contribute towards Government coffers by way of taxes. The presentation might reveal the failure to meet certain conditions and this can be overcome through some changes or indeed by overruling the objection in the larger interest of public good.

45. This kind of objectivity and purpose cannot be observed by minor officials who have limited authority. Only senior officials or the topmost people can do all these things in order to push through a project.

46. Thus in the case of Malaysia's national car project, it would not have started if the topmost people had not overcome all sorts of bureaucratic objections and procedures, assembled all the approving authorities in one meeting where all the requirements and problems were discussed, obstacles ironed out and approval in principle given. The top man insist that action be taken immediately and a report submitted within one week. The result was that what would have taken two years at least was resolved in two weeks. The national car project was off to an early start because of this Malaysia Incorporated

approach. Without it the time taken would have been very considerable, Government support especially in the tax area would have been denied and the project would have failed after considerable loss of money on the part of everyone. As it is, not only has the national car been produced, it has contributed towards enhancing the technological capacity and skills of Malaysians, paid dividends and taxes to the Government much more than the tax foregone, increased the capitalisation of the stock market and increased the foreign exchange earnings of the nation. More than that, where once there was no capacity to produce components for cars, today there is a thriving industry in which small and medium scale entrepreneurs take part. And there are other benefits too numerous to mention, all of which enrich the Government and the nation. So why should bureaucratic delays and petty conditionalities be allowed to get in the way? The Malaysia Incorporated concept of cooperation is what enabled a project like Proton to take off. And it is the same with other major projects by the Government, the privatised entities and the private sector. Without the active support and cooperation of the civil service and members of the Government they would practically all be delayed, their construction or implementation slowed down and their cost escalated.

47. If Malaysia in the last ten years has grown faster than it ever did before, if its growth and development is now so noticeable that it has become a model cited by the World Bank, it is because in part at least, the concept of Malaysia Incorporated has made such rapid growth possible. Without Malaysia Incorporated Malaysia would probably still grow but it would not be as spectacular.

48. And what is Malaysia Incorporated? It is the embodiment of smart partnership. How else can we describe the partnership between the civil service, the private sector and the so-called political masters. Partnership is implied in the deliberate policy of tri-lateral cooperation. And the partnership is smart because it yields results, results which are shared without exception by everyone, not only the three partners but the people and the nation as a whole.

49. There is only one thing regrettable about Malaysia Incorporated. One partner is missing. The trade unions and the workers are not consciously partners. It cannot be said that Malaysia Incorporated has not benefitted them. It has. Unemployment is practically nil now and wages and perks have gone up for the workers. Such is the demand for labour resulting in part, at least from the employment of the Malaysia Incorporated concept, that workers now choose their employers and not the other way round.

50. But why are the trade unions and the workers not partners in Malaysia Incorporated? The international trade unionist dislike to see cooperation between workers and their union with their avowed enemies, the employers. Their idea of helping the workers earn more is through confrontation and industrial action. To work with their employers through the Malaysia Incorporated concept would be to undermine the will, to make unreasonable demands and establish a bargaining position. The unions act on a basis of strength and the threat to do damage otherwise. The Malaysia Incorporated approach is through mutual help in order to succeed in whatever we are doing. The sharing comes later, when profits are made. In the trade union creed demands must be met first and the funds must come not because of greater profit through productivity but simply through making the end users or the consumers pay more.

51. The Trade Union view is short term. The most important thing is the pay rise. That the rise may result in cost going up and consequently prices and loss of competitiveness, sales and profitability, that is not a matter of concern. If inflation erodes purchasing power, that too can be easily resolved by increases in pay, never mind the price spiral.

52. This mindset prevents close cooperation in the spirit of Malaysia Incorporated. But if the Trade Union abandon their traditional stance and enter into the smart partnership of Malaysia Incorporated, Malaysia will truly be unbeatable. It will grow and prosper even faster and everyone will have bigger and bigger slices of the expanding economic cake, including of course the workers.

53. You are here to discuss smart partnerships, to aim for a win-win situation. You, I am sure, have many ideas which will contribute towards smart partnerships. But I would like to ask you to study the concept of a whole nation as a corporation, a nation incorporated as the example par excellence of a smart partnership.

54. With that humble suggestion I would like to welcome you to Langkawi the legendary islands where the salubrious climate may perhaps stimulate the grey matter and render you even more generous to your fellow men, of varied colours from varied continents.