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Government and Business: Working Together For Economic Development

I am delighted to be asked by the organisers to speak on a subject which I had long advocated and which has come to be a part of the Malaysian development strategy and process i.e. that of 'Government and Business: Working Together for Economic Development'.

2. You may remember that when Japan was rapidly emerging as an economic power fairly soon after its defeat in World War II, it was accused of institutionalising collaboration between business and Government. Japan Incorporated was roundly condemned because the mores of the time advocated a confrontative relation between Government and business. It was wrong for Government to help business for reasons which I have never quite understood.

3. Anyway in the early 80s Malaysia decided to adopt Japan's approach. In fact while Japan never liked being labelled Japan Incorporated, Malaysia deliberately adopted the term 'Malaysia Incorporated' to describe a mutually supportive relation between the public and private sectors. The Government actually preached collaboration between Government and business in order to develop the country. We have never been ashamed of it because we believe that such a collaboration would speed up the process of developing the country. Indeed we regard it as a duty for the Government to help the private sector, whether local or foreign, to succeed because they augment the revenues of the Government, create jobs for a lot of people, and support the other businesses and economic development as a whole.

4. Apart from these, the businesses help directly and indirectly to create the infrastructure which could be used by the people. We in the Government are very frank when explaining our business-friendly policy. We told everyone that the Government have a share in everyone's business for a part of their profit belongs to the Government. For the Government it was good business -- we contribute no capital but we get a share of the profit. If there is a loss it is not borne by the Government, except of course we do not get any profit.

5. I can say without fear of contradiction that this Government/business collaboration has paid off handsomely. Malaysia's rapid growth averaging about seven percent per year since the adoption of Malaysia Incorporated owes much to this policy. The objective of creating jobs for our people for example, has been so well achieved that today Malaysia is short of workers and has to depend on foreign labour. For a developing country this is quite unusual.

6. Although the civil servants at first balked at working for the success of the private sector, they now accept it as their contribution towards enhancing their own income. We pointed out to them that their pay actually comes from revenue collected from the businesses. The more the businesses succeed, the more profit they make, the more revenue will be collected by the Government. Such is

the growth of the Malaysian Government revenue that we are actually able to pay bonuses to all Government employees.

7. We describe this Government/private sector collaboration as a smart partnership, something which Malaysia has been advocating lately. The partnership is smart because both sides gain. As I have pointed out, while Government help for the private sector increases the capacity of businesses to be successful and profitable, the Government gains from being able to collect more revenue. But of course Government is not interested only in getting more revenue. Government is concerned with the development of the country and the welfare of the people. Can Government collaboration with the private sector help in this area?

8. Obviously increase in revenue would help the Government to put in place the necessary public utilities and social programmes. But the Government can also entrust the private sector with the provision of much of the needs of the public in terms of infrastructure and other services which in the past were regarded as the responsibility of Government.

9. Not so long ago when private enterprise was regarded as exploitative, good Governments choose to nationalise business enterprises in order to ensure that the return from such business should accrue fully to the Government. Instead of collecting a percentage of the profits by way of taxes, the Government it was believed would get all the profits. The profits could then be used to provide for all the needs of the people. Instead of rich capitalist appropriating for himself a disproportionate amount of the profit, now all will have an equal share of the profit through the Government redistributing wealth from the so-called means of production through subsidies for everyone, fairly if not equally.

10. But as we all know things did not work out that way at all. As everyone gets all that he needs and has little spending money, the products found no market and profits could not be made. In turn the Government was not able to get the funds to subsidise the people for all their needs.

11. Today we have decided to reverse the process. In place of Nationalisation, we now have Privatisation. The private sector is now being entrusted with not only the enterprises but even with work ` normally' done by Government. Thus the mail and even the collection of taxes are now privatised.

12. To do this there must be a high degree of collaboration between the private sector and the Government. There must be trust, for how else can the private sector take over the collection of a whole variety of revenue and taxes if there is no trust and close working together between the Government and the privatised utilities concerned.

13. Privatisation has worked and worked well. Because of privatisation the provision of necessary utilities and infrastructure such as roads, power, water supply, ports and airports need no longer be dependent on the revenue collected by the Government and the loans it can raise. The private sector has a way to

making these infrastructures viable through charges for their usage. They are able to raise the necessary financing for much of their public works projects. And so development is speeded up greatly. Certainly in Malaysia privatisation has enabled needed infrastructure to be made available earlier and often cheaper.

14. The Government has to play its part however. Bureaucratic delays have to be minimised. In certain cases subsidies may have to be given. This may seem to be a reversion to the old practice of state subsidies. But the Government cannot abdicate its responsibility completely.

15. When the main North-South Expressway was privatised in Malaysia the Government transferred a large segment of completed roads to the private company without charge. In addition the Government provided soft loans.

16. It may look as if the Government is helping the company. In a way it does of course. But far more important is the need to keep toll rates low so that the privatisation does not become a burden to the road users. If the company were to pay the full market price for the roads already built and then complete the rest of the highway, it would have to charge very high toll rates in order to recover cost and make a reasonable profit. There would be a public outcry. Worst still the usage may be reduced and the company would sustain a loss.

17. But by helping to lower the cost, the Government is able to reduce the burden borne by the users and maximise the use of the roads. The subsidy is not for the company as much as it is for the travelling public. After all the Government still collects a variety of taxes on road users. It is only fair that the road users be spared the full cost of using the new expressways.

18. This is a good example of how the Government collaborates with the private sector in order to enhance growth and development and the provision of necessary infrastructure earlier and adequately. It is the duty of Government to help make private sector projects viable without of course sacrificing public interest. In the case of the highway there is no way the Government can build and operate it profitably. It was not earning much from the part that it had built. It had no funds to complete the rest quickly. By making the project viable its completion was not only made possible but it was speeded up as well. Once in place the highway helped to increase the value of the adjacent land, stimulated their development, encouraged road travel, improved transportation, put more vehicles on the road (which of course earn the Government more revenue), created jobs and generally enriched a whole lot of people. The spin-off from such an infrastructural facility as an express highway is obviously much more than the support in kind that a Government can give to the private company constructing and operating it.

19. Clearly privatisation provides an excellent avenue for Government to work with the private sector. It involves not just making bureaucratic procedures less obstructive but the support should be very positive. Government actually can help to reduce the cost of a project for the private sector in order to make it viable as well as and acceptable to the public in general. The help in many

instances would cost the Government nothing for the Government is transferring to the private sector assets which have not been yielding any tangible returns to the Government in the past. To keep these assets would actually cost the Government a goodly sum from maintenance and operation. Transferred to the private company it helps to reduce cost while helping it to earn a fair return from its investments to upgrade, augment and complete the whole facility. And when the company's operation yields a return the Government would gain through taxes.

20. If on the other hand the company had to build the rest of the highway and could only collect toll on this portion, the project would not give a return commensurate with the capital outlay. Thus through the Government and the Private Sector working together something that was not possible or not viable can be made into a thriving enterprise in which everyone gains, the company, the Government and the public.

21. Privatisation of course involves resorting to market forces in order to develop a country's economy. It is now acknowledged that bureaucrats are not as efficient as the private sector people in making things work. Bureaucrats tend to be bureaucratic i.e. they tend to be concerned with procedures and rules rather than achieving results in the shortest possible time and at the lowest cost. They cannot be blamed for this because they have no vested interest in the results. Whether they achieve or not, whether they are slow or quick, they will be rewarded at the same rate. The Government's revenue comes from collecting taxes and if there is not enough to pay the bureaucrats then all that needs to be done is to increase the taxes. In fact if less work is done the burden for the bureaucrats is less. It is the exceptional bureaucrat who aspires to efficiency and would like to leave his personal mark on the performance of the Government.

22. The private sector on the other hand is bottom-line oriented. The faster the results are achieved, the lower the cost; the better the quality, the more black is the bottom-line. And that bottom-line is closely related to better compensation by way of higher pay or promotions for all the staff.

23. One can therefore expect the private sector people to do a better job than the bureaucrats. But it would be wrong to leave everything to the private sector. It would be wrong for a Government to abdicate and leave everything to the private sector. This is because left to itself the private sector will not give sufficient consideration to the needs of the public. They tend to focus only on their profits, to cut cost and maximise returns.

24. Government must therefore continue to play a role in guiding the private sector whether it be in privatised projects or not. For utilities and infrastructure this role of the Government is crucial. It ensures that the interest of the public and the nation as a whole is not neglected.

25. After socialism and nationalism has fallen into disrepute the pendulum has been swinging further and further in the direction of privatisation and market forces. The pendulum is in danger of swinging too far and make market forces

such an article of faith that anything done in its name cannot be questioned. We see this in the rigidity of mind when defending currency trading for example or when anyone criticizes excessive stock-market speculations. The proponents of market forces seem to believe that there are elements in these forces which will so balance them that they will on their own correct anything that may yield unwelcome results.

26. But actually market forces are as prone to abuses as are command economies. It must be remembered that self-interest is what moves market forces -- and self-interest is not far divorced from greed. Unchecked greed can overcome good sense in the market. When greed takes over the effect on others will get scant notice.

27. The financial turmoil in East Asia (including of course South East Asia) is a case in point. These countries had worked very hard in order to build their economies and give their people a decent life. From defeated and colonised people, they had pulled themselves up by their bootstraps in order to achieve a good degree of development. They had been largely successful in overcoming poverty in their midst. There was hope that within two or three decades they would be able to become developed countries.

28. But in July this year they watched helplessly as their currencies get devalued. Two decades of growth was wiped out in two weeks. Per capita incomes and Gross Domestic Products went down by more than 30 percent. For four of these countries the loss in purchasing power totals almost 300 billion dollars.

29. In addition, an attack on the stock markets of these countries wiped out hundreds of billions of dollars in capital. Industries have been forced to close down. Unemployment has gone up. Infrastructure projects including the supply of water and electricity have been halted. Retail business and all kinds of businesses have slowed down. In other words as a result of currency devaluation and assaults on the stock markets vibrant economies have been reduced to begging for aid from the IMF.

30. No one in his right mind can say that the present situation is better than when the economies of these nations were booming. True there were abuses. There was corruption. There were quite a lot of scams. There was still poverty. But the sufferings now are far greater than before.

31. What was the cause of this sudden recession? Some say that these countries have weak fundamentals. And these weak fundamentals cause the currencies to devalue and the stock market to shrink.

32. But could all these happen on their own? The truth is that some market players decided to pull out ostensibly to prevent themselves from losing their money when the economy collapsed.

33. Were they indeed holding huge amounts of the currencies of the countries concerned when they dumped them in order not to be caught by the devaluation? The evidence seems to show that they had not invested in these

currencies at all. They had merely borrowed these currencies in order to sell them and thus devalue them.

34. It is the same with the shares. They merely borrowed the shares in order to do short-selling.

35. They were therefore not at risk at all. They merely started the process of devaluation and then they kept on borrowing, selling and buying in order to deliver. No real money or shares were really involved.

36. How can they do this and destroy the economies of so many countries and the livelihood of so many millions of people? The answer is the free market. The free market allows them to do this. It is too bad that countries and people have to suffer and pay a heavy price. But that is the way a free market works. Market forces cannot be interfered with. It is sacrosanct.

37. It is unfortunate that we seem to have jumped from the frying pan into the fire. We had socialist and communist states and their central planning, also sacrosanct, which for 70 years condemned millions to misery. In this case there was too much Government. No one may try to change anything because the ideology of the supremacy of the state was a religion and did not tolerate heretics who criticised.

38. In the end after much misery and the loss of millions of lives, it was realised that the belief was wrong, that the ideology and the system was faulty and was not able to deliver the promised heaven on earth. But the price paid was very heavy.

39. Now we have the ideology of the market, the infallibility of free enterprises. Governments may not interfere with market forces. The market will make its own corrections. All you have to do is get your fundamentals right and things will right themselves.

40. The proponents of market forces say it will take time. A lot of people will suffer. Countries will lose their independence. The strong will overcome the weak. They, the strong, will then consolidate and give better service. The people must surely want better service and better goods from those most capable of delivering these than to have their independence and the shoddy good and services their own people and government provided.

41. That is the argument. Independence is not important. Surrender your independence to those who know best and you will prosper.

42. This is the creed of the market. They, self-appointed though they are, know best what is good for you. Governments are old-fashioned and irrelevant.

43. Thus the swing from the Government knows all and should decide everything for you to the market can do no wrong, is sacrosanct, is your benefactor, saviour, and ticket to prosperity is now as extreme as was the Communism and Socialism of yesteryear.

44. The fact is that neither the Government nor the market can work well on their own and independent of each other. Power corrupts. As much as Government can become corrupt when invested with absolute power, markets also can become corrupt when equally absolutely powerful. We are seeing the effect of that absolute power today, the impoverishment and misery of millions of people and their eventual slavery.

45. The choice for the world is not absolute power for the Government or for the market. The choice is cooperation and collaboration between the government elected and responsible to the electorate and the market with its stress on efficiency, competition and the bottom line. Only when the Government and business work together can there be maximum economic development for all to enjoy.